EMERGENCY HOUSING ASSISTANCE ACT OF 1988

HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

ONE-HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 4292

A BILL TO REQUIRE THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT TO PROVIDE EMERGENCY MORTGAGE ASSISTANCE TO HOMEOWNERS

MAY 24, 1988

Printed for the use of the Committee on Banking, Finance and Urban Affairs

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EMERGENCY HOUSING ASSISTANCE ACT OF 1988

TUESDAY, MAY 24, 1988

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Chairman Gonzalez, Representatives Vento, Kleczka, Kennedy, Pelosi, Wortley, Bartlett and Roth.

Chairman GONZALEZ. The Subcommittee on Housing will please come to order.

The hour has arrived, and we are about 3 minutes behind schedule, and we will have some of the members of the subcommittee coming in in a few minutes and some after a few minutes.

I thought the best thing to do would be to get some of the preliminaries, such as the opening remarks, out of the way and on the record so that we can proceed with dispatch and hear the witnesses who have come many miles in order to testify.

At the present time, in many parts of the Nation, more than we should ever have allowed to happen, families and their dreams have been shattered, literally. These families are losing their homes not because they have been careless or irresponsible, not because they have been foolish, but only simply because they have been caught up in an economic cycle over which they have no control whatsoever.

These occurrences have transpired in our country before. Those of us who are depression era kids recall and had sworn to do all in our power never to see what we went through happen again to our children, our grandchildren and great grandchildren.

The hearing today focuses on H.R. 4292. This is a bill similar to the one that I introduced in 1983. As many of you remember, this 1983 bill passed the House in May, even though I introduced it as an emergency measure at the beginning of the formation of that Congress. It wasn't until May, if I recall correctly around May 15, that we passed it out of the House.

Unfortunately, it passed with some opposition, and it passed the House strictly on a partisan vote, went to the Senate where it languished and died, but the record should show that the Senate for 6 years, and that was the third year of those six, didn't even sc m ı

as have a hearing on housing, much less consideration in a formal way of either legislation borne in the Senate or brought over from the House.

If we had been able to enact a proposal in 1983, many of the families who are today losing their homes and who lost them in the interim, such as families in Pueblo, CO, who by April of 1983 were losing homes at the rate of 105 a month, and this was one of the compelling reasons why we introduced the legislation.

My estimate is that had we approved and the Congress approved and had the President signed into law, which by all indications was a pretty dim hope, that at least 10 percent of the homeless that we now begin to see so publicized borne out of that unique form of homelessness this subcommittee first called attention to in 1982, in December, and that is families, not the traditional "ne'er do well", the unfortunate alcoholic or the mentally ill wandering our streets, no roof, no place to lay their head, but families, father and mother with children living in automobiles, parked under viaducts or under passes or in parks as one family I saw in my own home town, and this is not isolated to the frost belt but happening even in the balmy weather of San Diego, California, San Antonio, Texas, Florida, and I feel just statistically had that bill been enacted into law and just minimally administered, at least 10 percent of the families homeless later would have been averted.

It was ironic that in 1986, in the autumn, when we had a hard, unusual freeze in San Antonio, I visited the homeless that were lined up, and there were about 207 that particular evening. One young man 38 years of age had parked his wife, two kids with his in-laws in the State of Missouri and had lost his home in Pueblo, CO. He had been a steel worker, and there he was in San Antonio seeking temporary shelter that night because he had migrated in hopes of finding some kind of employment, and, of course, didn't find it in San Antonio.

To me, that was more than ironic; it was something that caused me to weep, because this was not a 60-year old, somebody who had had a chance to live; this was a 38-year-old young man willing to work, willing to have done anything if he had been given some kind of ability to do so, to have stayed in Pueblo, except his home.

So these are the things that we are addressing today, because our statistics show that the problem continues. We know from past hearings, and I think our witnesses today will also share with me the impact on the family when they lose their homes, they are not just losing the roof over their heads, but a lot of other things: Self-esteem, stability and the sense of security, and that which goes with the sense which is integral of home ownership. I don't think a home represents achievement as well as stability and a sense of control over one's life.

I think it is time for our government to take a stand and offer help to thousands of loyal, hard-working American citizens caught up in regional economic depressions who are not only losing their homes and savings but everything that goes with family integrity and unity and pride. We live in a more cynical age than even the depression. The Congress in the depression had enough faith in this backbone of America and so they offered the home, the old Home Owners Loan Corporation, which did essentially what we are

trying to do, and in fact the bill I introduced in 1983 was patterned on that. I was arguing on two bases, one that we had legislation on the books but which we will produce during the hearings has never really been—we enacted it in 1978, but all within the context of FHA, but it really hasn't been administered—much anyway.

We were going back recalling that Congress had faith in what I called the backbone of America and without whose health and stability were nothing. And it paid off because by the time the HOLC was closed out by about the time before the beginning of World War II, 1941, it brought to the U.S. Treasury close to $400 million. By those standards today, we are talking about a couple of billion of dollars equivalent.

This is what was meant to have had faith in that American family in the 1930s. Yes, we have had a lot of changes, societal, but part of the changes are due to the economic harshness that confront the average couple wanting to form and keep a home, raise their families in a stable environment of home ownership, and so today H.R. 4292 offers some kind of a minimal life line to those families. It is a loan program, HOLC was a loan program. If there was anything more dismal, I can't recall it, than that depression era, and yet the Congress had faith. In the 1980s, we seem to be more cynical and faithless.

So that it would permit a family of average means to receive a Federal loan to bring their mortgage up to date, keep it up to date until the family can get back on its feet. The eligible home owner must have a reduction in income due to involuntary unemployment or under-employment. Many lenders have talked to me personally to say that they are doing everything they can to forebear—in fact, I had a very meaningful visit by a group, a very powerful lending group in Texas, who were coming to tell me that they would favor this kind of legislation this year, and under the environment which was different in 1983 I will admit, and they were trying to work out a voluntary industry plan provided they could get the secondary mortgage institution, known as Ginnie Mae, to go along with some regulatory relaxation, and they would through a mortgage modification allow a family that through no fault of its own, as many in Texas are going through today, see their ability to meet that mortgage payment disappear.

So even segments of the industry who in 1983 had their doubts are today expressing some sympathy toward this, the thrust of this legislation. And so as far as we can tell, in a State such as Texas where many know the market foreclosure rates are 50 percent higher than the rest of the Nation, it is extremely difficult for lenders to handle these problems alone. And this is a difference in 1987-1988 with 1983.

A Federal role, I believe, is needed. I believe in the words of Franklin Roosevelt that we can't allow ourselves to be frozen in indifference to this basic need of Americans.

The witnesses today will bring their experience and expertise before us.

In view of the fact that some of the Members had indicated they would be here at 9:30 and haven't shown up, in order to avoid detaining the witnesses unnecessarily we will proceed with recogniz-

ing them. I understand that at least one witness to follow has a time problem in his need to catch a plane later in the morning.

[Opening statement of Chairman Gonzalez follows:]

STATEMENT OF CHAIRMAN HENRY B. GONZALEZ
HEARING ON H.R. 4292

AT THE PRESENT TIME, IN MANY PARTS OF OUR NATION, FAMILIES DREAMS ARE BEING SHATTERED. THESE FAMILIES ARE LOSING THEIR HOMES NOT BECAUSE THEY HAVE BEEN CARELESS, NOT BECAUSE THEY HAVE BEEN FOOLISH, BUT ONLY BECAUSE THEY HAVE BEEN CAUGHT UP IN AN ECONOMIC CYCLE OVER WHICH THEY HAVE NO CONTROL.

THE HEARING TODAY FOCUSES ON H.R. 4292, A BILL SIMILAR TO A MEASURE THAT I HAD PROPOSED IN 1983. AS MANY OF YOU REMEMBER, THIS 1983 BILL PASSED THE HOUSE IN MAY OF THAT YEAR BUT UNFORTUNATELY WAS NEVER ACTED ON IN THE SENATE. IF WE HAD BEEN ABLE TO ENACT THIS PROPOSAL BACK IN 1983, MANY OF THE FAMILIES WHO ARE TODAY LOSING THEIR HOMES AND THEIR DREAMS WOULD BE ELIGIBLE FOR THE TEMPORARY FINANCIAL ASSISTANCE THAT MY MEASURE PROVIDED FOR. I ALSO BELIEVE THAT THE LACK OF SUCH A PROGRAM HAS COMPOUNDED THE SERIOUS HOMELESS PROBLEM FACING OUR NATION.

WE KNOW FROM PAST HEARINGS, AND I AM SURE OUR WITNESSES TODAY WILL ALSO SHARE WITH US, THE IMPACT ON A FAMILY WHEN THEY LOSE THEIR HOME. THEY ARE NOT JUST LOSING THE ROOF OVER THEIR HEAD BUT THE SELF-ESTEEM THAT IS AN INTEGRAL PART OF HOMEOWNERSHIP. OWNING A HOME REPRESENTS ACHIEVEMENT AS WELL AS STABILITY AND A SENSE OF CONTROL OVER ONE'S LIFE. IT IS TIME FOR OUR GOVERNMENT TO TAKE A STAND AND OFFER HELP TO THOUSANDS OF HARD WORKING CITIZENS CAUGHT UP IN REGIONAL ECONOMIC RECESSIONS WHO ARE NOT ONLY LOSING THEIR HOMES AND SAVINGS BUT PRIDE AS WELL.

H.R. 4292 OFFERS A LIFE LINE TO THESE FAMILIES. IT IS A LOAN PROGRAM THAT WOULD PERMIT A FAMILY OF AVERAGE MEANS TO RECEIVE A FEDERAL LOAN TO BRING THEIR MORTGAGE UP TO DATE AND KEEP IT UP TO DATE UNTIL THE FAMILY CAN GET BACK ON THEIR FEET. THE ELIGIBLE HOMEOWNER MUST HAVE A REDUCTION IN INCOME DUE TO INVOLUNTARY UNEMPLOYMENT OR UNDER EMPLOYMENT.

MANY LENDERS HAVE TALKED TO ME PERSONALLY TO SAY THAT THEY ARE DOING EVERYTHING THAT THEY CAN TO FORBEAR. BUT, IN A STATE SUCH AS TEXAS, WHERE MANY OF YOU KNOW THE MORTGAGE FORECLOSURE RATES ARE FIFTY PERCENT HIGHER THAN THE REST OF THE NATION, IT IS EXTREMELY DIFFICULT FOR LENDERS TO HANDLE THESE PROBLEMS ALONE. A FEDERAL ROLE IS NEEDED AND I KNOW THAT THE WITNESSES TODAY, THROUGH THEIR EXPERTISE, WILL PROVIDE US WITH IMPORTANT COMMENTS ON THE BILL AS WELL AS ANY SUGGESTIONS FOR IMPROVEMENTS THAT WILL MAKE THE BILL WORK AS INTENDED.

BC:JR.(A)
(S-HR4292)

Chairman GONZALEZ. Our first panel consists of Mr. Jim Butler, who is known as Mr. Project Hope, with the housing opportunities in McKeesport, PA, and he is accompanied by two families, Dan and Joanne Karaczun of Dormont, PA, and Ms. Barbara Cogburn of Dallas, TX.

I guess we should recognize Mr. Butler first so that he, in turn, can introduce our witnesses.

Mr. BUTLER. Thank you, Mr. Chairman.

I would like to on behalf of our families today and myself thank you and the committee for inviting us to tell our story, and I would like to begin our presentation with Barbara telling of her experiences and then later we will talk about our experiences as an agency dealing with this problem.

Chairman GONZALEZ. If you will yield to me, I want the record to show Mr. Butler has been here before when we worked on our first H.R. 1983, so I think the record ought to reflect that. Ms. Cogburn.

STATEMENT OF BARBARA COGBURN, DALLAS, TX

Ms. COGBURN. Thank you. I am Barbara Cogburn from Dallas, TX. My story is not a single isolated family, there are thousands of families going through the same or similar circumstances, circumstances that are beyond our control.

I held a job, which I was laid off from and being employed there for only a brief period of time. It took maybe 3 or 4 months laid off from that job before I could find another form of employment. At that point, in time that job was phased out after 6 weeks. I went on unemployment for a brief period of time, not having a very long working history, it didn't last long. We went through a brief period of time in the fall of 1986 where we went without electricity in order to make our mortgage payments. I lost a job then due to a cutback. They called it manpower hours being set back so they could meet their payroll.

I tried after a 9-month period of employment to maintain my mortgage payments. The job again was once more cut out from under me and left me looking.

Within 7 months of entering a community college in Dallas to study, to try to find another form of employment, I found a job that I just was notified last Friday that they are filing Chapter 13, and I once again will be facing the same fears, the fear of losing the home that I used to raise three children on my own, a single parent that has paid 15 years on a 30-year mortgage facing foreclosure and losing a home that represents our family to us. I don't think that it was a very convenient time for me to come to Washington, but I feel like it was a very important time for me. There are so many people in the same situation trying so desperately hard to make it, and they are falling short just when they thought they had it made.

I am 6 months behind in my mortgage payments, I have gone without gas in my home now since April 15 in order to save up for mortgage payments to negotiate a payout settlement with my mortgage firm. When I approached them last week, they didn't even want to consider that I would have the abilities.

This is very devastating. If I lose my home now, I am facing the breakup of my family. I know that I am a single parent, but I am trying very hard to keep the house because it seems to represent, like you stated earlier, it is a pivoting point, we all go and take care of our things, but we all return home, and we are still part of a unit. Without a husband, maybe our home doesn't represent that, that we are a family and we are all under the same roof. Please do what can be done for our sake and the sake of all the rest of us.

Thank you.

Chairman GONZALEZ. Thank you very much, Ms. Cogburn. We will come back after we hear from the other witnesses.

Mr. BUTLER. Joanne and Dan are two families that faced unemployment when Dan was laid off from the steel mill, but they were able to enroll in our home program, and I would like them to share their situation.

STATEMENT OF JOANNE KARACZUN, DORMONT, PA

Ms. KARACZUN. I would like to quickly chronicle our involvement with Housing Opportunities and how we went about saving our home.

In August of 1983, after raising our family—oh, I wanted to state we have three children, and their ages are very important at this point. Our son is going to be 21, and we have a daughter that is going to be 20 and another daughter that is going to be 17.

After raising the family, I went back to work in August of 1983. In January of 1983, my husband was laid off from U.S. Steel after 18.5 years there. Needless to say, we were devastated. I personally never felt that it would happen, but there he was without work. We lived on his unemployment compensation and sub pay in addition to my meager salary. I was working at Duquesne University in Pittsburgh.

In September of 1984, my husband went back to school, to community college, under the Displaced Worker Program, in other words his education was free and he was studying graphic art and design. It was during that year that we were starting to slip with our mortgage payments. You figure we have three grown children, trying to feed them and all their needs and everything, and then in September of 1985 our son was ready for college.

In 1985, my husband's income was a little over $7,000, and it was in the fall of 1985 that we got involved with the Housing Opportunities. I think the mortgage company, as we were nearing, we were falling behind and nearing foreclosure, they had recommended several organizations we get in touch with. One of them was a financial counseling kind of thing that we went to, and they were not able to help us because they said under the circumstances what we were doing with what little money we had was fantastic, they said, great, continue, but that wasn't enough. You know, we weren't making the house payments.

So, the second organization that we went to was Housing Opportunities, and they were fantastic. They not only helped us with information that we weren't really aware of; what we did do was we went to HUD, and we met with them, had an interview and everything else, and HUD took over our mortgage and that lowered our

payments enough that we were able to—I think our house payments were like $273, and they lowered it to $150, which was really good at the time, but as we started to get back on our feet, I was making the full $273 anyhow, even though we didn't have to.

But Housing Opportunities not only gave us this information that we needed, but the human involvement there was fantastic. Here you have to realize here is a family who was used to paying their bills, used to having their home, and all of a sudden we were in a situation where we didn't have food, and we didn't even know how to go about getting food if there was food available.

The social worker that came to visit us would come and bring food, and also it wasn't so much that we necessarily needed psychological counseling or anything. We are a close family and we support each other, we are strong that way, but we just needed somebody to listen to us, you know, to help us—this whole thing was so humiliating, it had an impact on our self esteem and everything, but this woman was there, and she helped us through just being there, through the food she brought, the help that way, and also the information she gave us.

We had a second mortgage that we were able to get help through Act 91, which is a State loan program, so that was set right.

This all took place, HUD took over the assignment of our mortgage in January of 1986 and my husband was finishing his year of school at that point and decided to take a summer job. I would like to let him continue from there.

STATEMENT OF DAN KARACZUN, DORMONT, PA

Mr. Karaczun. I am just inheriting the microphone from the strongest person I have ever met. After being laid off from my job at United States Steel, I naturally sat down and began to write a resume and wasn't very pleased at what I saw. I recognized the fact with our financial obligations the jobs that would be available to me would simply not be able to keep our family and our home together, so I decided to take a chance and do something I always wanted to do anyway, and that was to study fine art.

Unfortunately, because I already held a degree, I could not get a Pell Grant to go to Cornell-Mellon University and study fine art. So I went to community college a year and took only art courses, took a summer job with a Pittsburgh computer store in Pittsburgh and met a new friend, and that new friend was called McIntosh Computer that is very graphically based and appealed to me immediately because I don't like to read computer manuals, and besides I am an artist and it was a natural kind of marriage between art and technology. I sold computers for 9 months, during which that period we had HUD take over our mortgage.

Shortly thereafter, I was offered a job by one of my customers who was also very interested in high technology and art, I worked with him for approximately 3 months and began to realize we had very divergent opinions about where this business was headed.

I then went into a very brief partnership with a computer store and an art firm to try and put this all together and market the technology. Again, I ran into differences of opinion on where this was going and how it should be accomplished.

Being rather single minded and having my own vision in life, I decided that it was time for me to begin my own business. In the early months of my business, I would make anywhere from $200, $300, $400 a week on a good week, until we reached the period of October of 1986, or it was 1987—I am sorry—through early January of 1987, my income was $1,000 and it was very difficult to keep the wolves from the door at that particular time.

Fortunately, there is a rather large company in Pittsburgh, Westinghouse Electric Corporation, that was looking at this technology and realized although it wasn't a very easy computer to learn to use, the applications were not necessarily a cinch to learn, and they needed someone they felt to support the network and also to train their people, and I have been associated with Westinghouse Electric as a primary graphics McIntosh consultant since then and am continuing to do that today.

My company is actually a proprietorship, the name of it is Publassist for publishing assistants, and since then I have consulted with many other companies, as well as Westinghouse, but it is interesting, in August, 1987, we made more money that month than we made in 1985 for the whole year. Our business is located in our home. Without it, we would be out of business. We need, because of our other financial responsibilities, to have a very, very low overhead. We can offer more attractive rates for the services that we provide because of our home.

I would just like to say we are not totally out of the woods yet, we have a long way to go. We have accumulated to our estimation an additional $37,000 worth of debt because of unemployment and under-employment. We don't buy new stoves, we don't buy new furniture, we don't buy new anything. What we buy is computer equipment.

I took my severance from United States Steel and my pension and invested it in our future with computer equipment, and I would like to believe that anyone who had a single minded clear vision of what they wanted to do with their lives could do this, but I don't believe that is true.

I think that I am lucky, I think that I saw in technology a way to make things work. I would much rather be a sculptor, to be honest with you. Not everyone can embrace high technology, not everyone can work in the government, not everyone can be special, although I believe everyone is special. We do need bus drivers, we need steel workers, we need the people in our society to make it work. And we just can't simply turn our backs on them.

I would like to thank Jim Butler personally for his program and also Rita Randall, who helped us as our case worker through the tough times.

Mr. Butler. Thank you, Dan.

Chairman Gonzalez. Thank you, sir.

Mr. Butler.

STATEMENT OF JAMES P. BUTLER, PRESIDENT, HOUSING OPPORTUNITIES, INC., McKEESPORT, PA.

Mr. Butler. Mr. Chairman, as you mentioned, the situation in the Monongahela Valley, which are all steel mills which are

boarded up and incredibly high unemployment, it is very similar to the oil patch problems in the southwest, well, our agency has had a home ownership program for many years dealing with helping people to become home owners, and we are based, all of our programs on a professional council or working one on one with a family in a very close working relationship with the lenders.

In 1982, with the permanent shut down of our mills and the incredible number of home foreclosures, we got together with our staff and our board and volunteers and some lenders and utilities that we have developed a rapport with and we designed a new program we called, Home Ownership Protective Effort, and we use the acronism HOPE for the name of that program, and it has some very unique features to it.

The professional counselors make a commitment with the family to stick with them until they are re-employed with sufficient income to cover their obligations. To date that has taken 15 to 16 months of professional counselors working with those families.

We only take into the program families or individuals who are delinquent on their mortgage because of unemployment or under employment. We have been able to charge the institutions with a vested interest in these unemployed families for our services, namely the local lenders, the utilities, the mortgage insurers and mortgage investors, because when we are successful in helping these families to keep their homes, those institutions with vested interest benefit.

So we felt it made sense for them to pay the freight, and we found because of the level of the crisis and the amount of millions of dollars they were losing that they would take a chance on our particular program. We have now operated that program for more than 5 years and we have a growing list of lenders and insurers who have made public testimony as to the cost effectiveness of our particular effort.

On average, the families that come in our program have a gross income that is insufficient for mortgage, food and utilities, but once they enter the program they are averaging a little more than a full mortgage payment each month back to the lenders. And less than approximately 3 percent of those families have ended up in foreclosure, and we have been told by other groups that have a national perspective that they in dealing with that group with such a negative income that is a high success rate.

We also have established revolving loan funds which we have gotten from contributions from foundation, we have been able to use public aid programs. We have been able to help our families to secure more than $1 million in aid, which is a large reason why they have been able to keep the water level below their mouth until they become re-employed, and that is an important part of the program, is to keep their head above water as we assist them on to new careers. After operating the program and achieving more success in five counties in southwestern Pennsylvania, then, we anticipated, we went down to HUD in Washington, DC., and it was a cold call, there was no request for proposals, but we shared with them the results and the cost effectiveness and the fact that these institutions with the vested interests were so willing to pay our freight because we were able to get results, and they even were

willing to put monies in our revolving loan funds to leverage other churches and community foundations, which have done extremely well.

We asked HUD to do two things for us. We asked them to on FHA insured mortgages to pay our fee and, two, we said we wanted to replicate the program nationally because we learned in our five counties in southwestern Pennsylvania, if we line up every lender in our area it would still service less than 50 percent of the mortgages, a lot less than 50 percent, because most of those loans are sold to the second area market and the large mortgage investors are then involved. So we felt if we had a program that could be replicated and operated in the same manner with the same management using existing not-for-profit corporations with a local base and a community support system, we would be able to get large institutional players to come into the program.

HUD is losing a fortune on foreclosure, and they took a risk, a gamble, and began investing in the program. They have now invested over $2 million. They tell us that their analysis shows for every 1 dollar they have paid in the HOPE, we have saved FHA and the insurance fund 6 dollars. So it is incredibly cost effective. Part of our game plan was to involve the large mortgage insurers and large mortgage investors and to date we have the largest private mortgage insurer, MGIC, and the largest mortgage investor, Fannie Mae, in the program, they pay our fees, they make contributions into our revolving loan fund which we leverage from other grants and we now have the program operating in parts of Ohio, Pennsylvania, and Texas and later this summer part of Illinois and northern Kentucky will come into the program.

I think it is important to note in this program that although there is some cost as in your H.R. 4292, as there is some cost in us raising money as we have done, which is somewhat very similar to your concept, when you look at the savings that the other neighborhoods, other neighbors say because their property values are protected, the families in need, the lenders and the tax base, there is no question that it is spending 20 cents to save a dollar and a quarter, so I think we have to look at the cost effectiveness of this program.

I would like to recommend that the committee consider when you analyze H.R. 4292 to take a hard look at the HOPE model. It brings that private sector ownership that has leveraged exceedingly well and brought in the institutional players that we must have as partners to be successful. And in my written testimony, which I have submitted, I did a very conservative analysis of the HOPE program was followed into H.R. 4292, we would be able to service more than twice the number of families, and we would be able to provid the human services that are so important to help families back on their feet and maintain a high rate of success.

I have also included the statistics, the agencies that are involved, and we have established the National Hope Advisory Committee to assist us as we go to other cities making introductions and establishing our credibility, and I firmly believe that with just some minor amendments, and using a mechanism which HUD has already bought into and put more than $2 million in, if we could have additional resources and use the same established mechanism

which is already there, we in fact would be able to service so many more families and bring aid to those families, neighborhoods and lenders which are losing such a fortune and then requiring public bail outs. So I would just like to express that I would be happy to work with this committee in utilizing our experience and gaining from it and also would just like to again thank you for inviting us and allowing us to share our experiences.

[The prepared statement of James P. Butler can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Butler. You can be assured we are soliciting your contribution and the suggestions you have made, and we will find a way to provide that H.R. 4292 becomes flexible enough to make room, allowance and recognition for the program you have very successfully carried out.

As far as the money question, which was the big issue thrown at us in 1983, I would like to point out that we in the Congress approved $1.5 million a day for El Salvador. That is just one country, $1.5 million a day, and we are not asking for that much in this authorization for amendments.

In the meanwhile, we had both Representative Bartlett and Mr. Roth coming in, but Mr. Bartlett had to leave and I was hoping he would stay here because he has the Dallas area and Ms. Cogburn is from Dallas and I am sure he would have some observations and comments. We also have a young man from Wisconsin who has some exposure to this type of thing.

Mr. Kleczka, do you want to say anything?

Mr. KLECZKA. Not at this time.

Chairman GONZALEZ. Another young man, he is from the northeast, not the midwest, but if anybody has been here, it was his presence that made the difference in 1983. Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman.

A staff member of the Judiciary Committee just wigwagged me because a bill that came from my subcommittee is up. I want to commend you once again for the leadership role you are taking. I will come back, I apologize.

Chairman GONZALEZ. Our loss is Judiciary's gain. I hope you get it through real soon and come back.

Mr. Roth, do you have any statement you wish to make?

Mr. ROTH. Mr. Chairman, I think that I am going to forego any statement and listen to the witnesses we have here today. I too want to commend your leadership in this area because I know it is one of the leading issues that is going to be discussed not only now, but in the fall of this year. I commend you for this hearing. I also want to take time to say I thank you for inviting me to your birthday party, it is probably the greatest bash I have ever been to and I appreciate being invited.

Thank you for letting me make that personal comment.

Chairman GONZALEZ. Thank you for coming over Toby. It is an annual event. We will bring the food up from San Antonio, the music and drink.

Mr. Butler, I understand that you have opened activities in Dallas.

Mr. BUTLER. We just last week opened two agencies that will operate the home program in the County of Dallas, and in the County

of Tarrant, which is where Fort Worth is located. They didn't have a local agency that had the capacity to operate our program so we are in the process of incubating a new locally based non-profit, and the Housing Finance Corporation of the city of Fort Worth has recently made a commitment of $257,000 to this effort. So I think that if you look at the growing list of lenders and mortgage insurers and investors and city agencies that are willing to leverage their money into this effort, it shows how that the components of the HOPE Program and the way they are able to involve the vested interest in the community stretches the money tremendously, which enables you to be more successful with more families, and we could be growing at a faster pace if the resources were made available, and as you mentioned at your opening comments, there is no question as to the level of the need that this crisis exists.

Chairman GONZALEZ. How did you locate or find the organization? I noticed you were careful to point out Dallas County? Is that the municipality of Dallas? What organization did you find in Dallas?

Mr. BUTLER. In Dallas we are using two organizations, the Dallas Consumer Counseling Agency and the Urban League, and they will operate our HOPE Program throughout the entire program. The reason I wanted to point that out is the program can service larger than simply a city. Our particular organization services five counties. So as the program grows, you would be able to blanket any crisis areas and gain your bill, I think rightfully so, focuses on crisis areas where the need is great, and I think that is a commendable approach in addressing this problem.

Chairman GONZALEZ. Thank you very much. I imagine you are the reason why we have Ms. Cogburn.

Mr. BUTLER. Pardon me?

Chairman GONZALEZ. I imagine you are the reason we have Ms. Cogburn as a witness.

Mr. BUTLER. Yes.

Chairman GONZALEZ. What I wanted to make sure was that Ms. Cogburn did not leave the premises this morning without having some assurance from us that her problem is going to be resolved and that she can keep her home. You are working on that, I am sure.

Mr. BUTLER. Since we just opened at the end of last week, I think Barbara will be one of our very first consumers in the HOPE Program in Dallas.

Chairman GONZALEZ. Well, I wantod to also offer some suggestions, I wasn't going to take the time of the hearing here, and I don't know if you have the time, Ms. Cogburn, but if you could remain here after the panel has been discharged, I would like very much to get the staff together. I want to make sure that you don't leave this premise without having some binding assurance that your problem is going to be solved.

Ms. COGBURN. Thank you, so very much.

Mr. BUTLER. We will be happy to stay.

Chairman GONZALEZ. If you have the time, I am asking you to please do so.

Mr. BUTLER. We have the time.

Chairman GONZALEZ. I was going to either ask Mr. Kleczka or Mr. Roth if they have any questions.

Mr. ROTH. Mr. Chairman, if I may, I would just like to say I have some questions about your legislation. I know your heart is in the right place but I am concerned about the cost. Five hundred million dollars is a pretty good price tag. I would like to ask Ms. Cogburn, what kind of relationship did you have with your lender?

I come from the real estate business and it seems to me if you approach your lender and explain a problem to him or her, they usually try to work it out for you.

Ms. COGBURN. I have been working with Consumer Credit Counseling, Mr. Gene Arnold, has been working with me to negotiate with my mortgage company and the periods of employment weren't lasting long enough in between the times of unemployment. in order to cover making mortgage arrangements that were for a long lasting effectiveness.

The last time Mr. Arnold called, which was the middle of last week and tried to negotiate a pay-out arrangement they no longer wanted to hear of it at all. They wanted to foreclose. As I stated earlier, I have paid 15 years on a 30 year mortgage and they would prefer foreclosure now.

The payments I make on my mortgage are $265 a month, and for a three bedroom, two bath house, it is almost impossible for me to rent for me and my three children in any other way. I mean there is no other way to afford a place for us to live.

Mr. ROTH. Fifteen years—that is half of the life of the mortgage?

Ms. COGBURN. It certainly is.

Mr. ROTH. These 15 years, have you been delinquent before? Is this the first time?

Ms. COGBURN. It began in 1984 when I had an accident to my hand. I was working as a secretary at the time, and I had the back three fingers of my left hand almost severed and I lost my ability to make an income at that point in time.

You know, it was like I had to go and find retraining, some other form of employment. And I had no insurance for that and had to have plastic surgery to have my fingers repaired.

Mr. ROTH. Since 1984 you have been working with your lender and it has come to the point where he has said they don't want to continue this, they want to foreclose?

Ms. COGBURN. Yes.

Mr. ROTH. How much in arrears are you?

Ms. COGBURN. Right now I stand 6 months behind in my mortgage payment.

Mr. ROTH. Thank you. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much, Mr. Roth.

I want to thank each and every one of you for coming these many miles to be with us today, and I can't find the words with which to express my gratitude to you, Mr. Butler, you are a man who cares and that is what it is going to take. So I want to thank you very much, and if you have the time, I would like to come back to you after awhile.

Mr. BUTLER. Thank you.

Chairman GONZALEZ. We have our second panel consisting of Mr. James Abbott, Chairman of the Legislative Committee, Mortgage

Bankers Association of America, Mr. Phil Gasteyer, executive vice-president, U.S. League of Savings Institutions, Mr. J. Edward Carlton, secretary/treasurer of the Mortgage Insurance Companies of America.

I understand you have a problem here with an airplane schedule, so if there is no objection, we will recognize Mr. Abbott first.

STATEMENT OF MR. JAMES A. ABBOTT, CHAIRMAN OF THE LEGISLATIVE COMMITTEE, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. ABBOTT. Thank you.

Mr. Chairman and Members of the subcommittee, my name is James A. Abbott. I am president and chief executive officer of First Union Mortgage Corporation, Charlotte, North Carolina, and chairman of MBA's Legislative Committee. Accompanying me today are Burton C. Wood, MBA's legislative counsel and Sharon Canavan, MBA's deputy legislative counsel, and Janet Frank, director of Government Relations.

We appreciate the opportunity to appear before you today to express our views on the current situation regarding home mortgage delinquencies and foreclosures and to offer our specific comments on H.R. 4292, the "Emergency Housing Assistance Act of 1988" and our general views on mortgage relief legislation.

Foreclosure is but a symptom of the overriding cause-sustained high unemployment. Lenders are forbearing whenever possible, particularly where the borrower shows promise of being able to reinstate. For forbearance to be most effective, borrowers should contact their lenders as soon as a problem develops to allow a lender to formulate a workout and forbearance program before a serious delinquency has set in and substantial arrearages have accumulated.

In some cases, borrowers might be able to refinance older, low balance loans to recover some of their equity or to lower the monthly payment with an interest rate reduction.

Lenders also suggest that a borrower look at the value of the property and consider selling it. If a home must be sold, the current housing market is far more congenial to quick and profitable sale by the borrower than the depressed markets during the early 1980's, except in localities suffering from regional economic downturns.

However, it is prohibitively expensive for a lender to forbear on a voluntary basis for an extended period of time. When a mortgage bank does not receive a borrower's payment, institutional investor and seller/servicer requirements of the secondary mortgage market require lenders either to repurchase the loan or to forward payments whether or not they have been received from the borrower. Lenders cannot afford to advance funds for extended periods where reinstatement is unlikely, and this is particularly true for lenders who are servicing large numbers of loans in localities experiencing high unemployment.

MBA believes that the problem of mortgage delinquencies and foreclosures is regional in nature and, therefore, we question the need for broad-scale emergency relief at this time. We are greatly

concerned about the impact of assistance programs on the Federal deficit, which is already excessive. Nonetheless, we would like to offer our constructive comments on what we believe the framework of a relief program should be.

MBA's major concern regarding foreclosure relief is its potential cost, particularly because in many instances there is no chance that a borrower will ever be able to catch up again. In this light, we recommend that a relief program, if enacted, be limitod in nature, targeted only to owner-occupants, and limited to those borrowers most likely to benefit from the program's assistance.

Such a program should apply only to VA and conventional mortgages, because FHA borrowers are already covered by the assignment program, or, in time, the TMAP program. Furthermore, as provided in H.R. 4292, relief should be extended only to those who are deemed capable of resuming payments in the not too distant future, and of repaying the assistance extended.

The trigger for activating a foreclosure relief program should be based on regional or local data, rather than on national statistics. Recent foreclosures have been concentrated in areas experiencing high unemployment. While national statistics might not trigger activating an emergency foreclosure assistance program, local conditions in many regions could warrant implementation.

A foreclosure relief program should only supplement a borrower's limited ability to pay, by requiring a borrower to make partial payments from whatever income the borrower is receiving. Interest should also accrue on the assistance payments. These borrower contributions are not designed so much to reduce the cost of the program as to indicate a borrower's ability and willingness to work out delinquency problems.

MBA believes that any assistance payments should be recapturable. The assistance payments should be secured by a second lien or second trust against the property to ensure repayment.

MBA also urges that assistance under a foreclosure relief program should not be extended for too lengthy a time period, unless a borrower has a significant amount of equity in the home or is capable of reinstatement. The most efficient use of assistance funds would be to limit assistance to cover arrearages only. The borrowers who are most able to reinstate are those who can, with appropriate financial management counseling, make the monthly payments, but who are unable to bring the loan current because of payments in arrears that have accumulated.

Procedural foreclosure delays during the application process should be carefully restricted. Otherwise lenders will be subject to significant potential delays, beyond their own voluntary forbearance period, if assistance is ultimately denied because the borrower is deemed by HUD not to be capable of reinstatement. H.R. 4292 does not, in fact, address compensation to lenders for forbearance during the application period if the assistance is denied. Because VA and conventional loans are not fully covered by mortgage insurance, significant delays during which time arrearages mount, will result in greater losses for lenders, which will have a direct impact on the cost of servicing, which will be passed along to borrowers via increased mortgage interest rates.

In summary, while H.R. 4292 as introduced addresses many of these concerns and improves upon the legislation passed by the House in 1983, MBA is nonetheless compelled to voice its concern over the cost of an assistance program and to urge in strong terms that assistance should be focused on localities suffering extreme economic distress. Furthermore, assistance should be best marshalled by limiting it to individuals who are strong candidates for forbearance assistance and who will reinstate.

[The prepared statement of James A. Abbott can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Mr. Gasteyer?

STATEMENT OF PHIL GASTEYER, EXECUTIVE VICE PRESIDENT, U.S. LEAGUE OF SAVINGS INSTITUTIONS

Mr. GASTEYER. Thank you, Mr. Chairman and members of the subcommittee. My name is Phil Gasteyer, and I am executive vice president for the U.S. League of Savings Institutions here in Washington. The League is pleased to have this opportunity to participate in these hearings and to work with the subcommittee on this very important aspect of national housing policy.

I am here to indicate the general support of our organization for the legislation dealing with the problem of mortgage delinquency resulting from economic hardship. The League and its members are well aware of the economic calamity that can befall individuals and institutions alike when they are caught on the wrong side of an economic pendulum.

H.R. 4292 would create a mandatory HUD Program to assist eligible homeowners who, through no fault of their own, are in danger of losing their home to foreclosure. While we do support the approach taken in the bill, Mr. Chairman, we have some suggestions which we believe will improve on this program.

I might add that I think that it is wise to be prepared in advance on these types of situations. Too often we find ourselves trying to catch up with periods of economic distress that come on our economy, and indeed, if your legislation had been enacted in 1983 it might have stood us in good stead in the last couple of years, particularly in the Southwest, as you are well aware.

The Assistance Program authorized by this bill would become available in any Federal Home Loan Bank district where the 60-day default ratio is 2 percent or higher for a 3-month period.

We don't object to the use of this measurement, but we want to point out that monthly reports include only loans held by Federal Home Loan Bank Member institutions. Since the loans eligible for assistance under the bill are all non-FHA loans, the subcommittee needs to understand this is not a perfect match.

We also want to point out to the subcommittee that the 12 bank districts vary greatly in size, total population, volume of mortgage lending and number of States. The State may be very much in need of the program, but may happen to be in a district where the data is dominated by a larger State where economic conditions are more favorable at the moment.

We suggest that the bill be amended to allow an individual State to apply to HUD for activation of the program when it can demonstrate its qualification even if the district at large to which it is signed cannot.

There is, Mr. Chairman, one major concern we have with the program and it stems from the budget limitations of the bill which are the product of political reality no doubt. Hopefully, the revolving fund will be sufficient to assist all eligible homeowners in all bank districts at a particular point in time. If not, if some get the help and some do not, we do not want the lender in even the most remote way to be put in the position of deciding who gets the assistance and who does not.

This problem arises out of the provision of the bill which requires the lending institution to assist the homeowner in the preparation of the application to HUD. The practical reality of this could be that the lender will be the determinant deciding who qualifies and who does not.

Some of the requirements are beyond the capability of lenders to ascertain with any degree of certainty why someone has lost a job or had reduction in income and what their prospects are for financial recovery within the future. Two and one-half years is a subjective type of judgment.

Given other provisions of Federal law such as Equal Credit Opportunity Act, we feel it is imperative that lenders go to great length to eliminate subjectivity in making these kinds of judgments.

The keystone of the private conventional mortgage market is the legal contractual relationship that exists between the mortgagor and mortgagee. Our concern with H.R. 4292 in this regard is in section 6, Stay of Foreclosure Proceedings.

While foreclosure is a last resort for a lender and something which all lenders want to avoid, the lender's legal right of foreclosure must be maintained in order for the whole fabric of private mortgage finance, including a successful secondary market system, to function properly.

Here, again, our concerns are practical, rather than theoretical. How long will it be between the time an application is sent to HUD and the monthly payments start flowing to the lending institution? Our experience with Federal agencies is not always encouraging on these types of points.

We foresee significant delays during which the borrower is free of any obligation to make payments while the foreclosure process is stayed or suspended. There will undoubtedly be situations where the program will cease in an area while applications are still pending, in which cases the foreclosure has been suspended.

Section 8 of the bill raises another concern. It is not at all clear what the relative position will be between a private sector lien holder and HUD. Section 7 provides that HUD's liens are subordinate to existing mortgages. This does not, however, address the possibility of other kinds of liens, mechanics liens and so forth, which are not in the form of a mortgage.

The provision in section 8 suggests something other than a subordinate lien position for HUD. There may well be more than one lien on the property in question before the HUD assistance is ap-

plied for and there is also the possibility of an intervening lien being filed during, before the time the assistance begins. These are problems we think can be ironed out and maybe a little tighter draft would be in order.

The bill instructs each of the financial regulatory agencies to adopt a policy of encouraging their regulatod lenders to forebear on delinquent mortgage loans. The Home Loan Bank Board has in effect a policy statement from the early 1980's in this regard. We believe this section is absolutely essential in any legislation of this kind. Without it, the regulated lending institution will be in a no-win situation. Absont clear, proper forbearance directives from its supervision and examining authority, the examiners will only look at the fact that here is a non-performing loan and that triggers all kinds of problems for the regulated lender.

While we endorse this section, Mr. Chairman, we must point out that it will assure forbearance only on mortgage loans held in the portfolios of thrifts, banks and credit unions. As you know, there has been in recent years a steady increase in the percentage of mortgage loans being held, not in traditional portfolios, but in the secondary market agencies or other holders such as insurance companies and pension funds.

These loans are serviced by mortgage bankers and savings institutions for the most part. In these cases, it is the servicer of the mortgages that H.R. 4292 speaks to, rather than the holder. In order to assure the same forbearance opportunities to all conventional loan mortgagors, the bill would have to be amended to extend the forbearance language to some of these non-federally related investors.

In conclusion, Mr. Chairman, the U.S. League supports your efforts and those of the subcommittee to provide direct Federal assistance to homeowners facing the possible loss of their home as a result of the economic conditions beyond their control. We can't, however, strictly endorse every last word of H.R. 4292 as introduced, but would certainly like to work with your staff for improving the legislation.

Of greater importance, however, is our fear that the program will be far too limited to meet the need that exists in the most severely depressed regions of our country. Combined with the role this bill assigns to conventional lenders in determining who will get the aid and who will not, the scope of available assistance could put the lender in a difficult position.

To be candid, Mr. Chairman, I am not sure that this problem can be easily solved. We are willing to try. Before closing, I might say I was glad to hear you refer in your vast experience to the HOLC experience of the 1930's, indeed, what turned out to be a successful pay-back program. We have raised the prospect of taking another look at that only to be ridiculed in the press for doing so.

I certainly encourage you to pursue calling attention to that model of a successful Federal Assistance Program in the past for persons who, beyond their control, have found themselves in a position where they can't make their mortgage payments.

Thank you, again, for giving the U.S. League an opportunity to appear today.

[The prepared statement of Mr. Gasteyer can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Gasteyer, and the League you represent for their continuing and sustained support in these very vital matters, and for your very wise observations.

Mr. Carlton?

STATEMENT OF J. EDWARD CARLTON, JR., SECRETARY/TREASURER, MORTGAGE INSURANCE COMPANIES OF AMERICA

Mr. CARLTON. I am J. Edward Carlton, Jr., president of Integon Mortgage Guaranty Corporation, Winston-Salem, NC and secretary/treasurer of the Mortgage Insurance Companies of America. MICA appreciates this opportunity to discuss the foreclosure problems faced by people in many sections of the country. We applaud the spirit and intent of H.R. 4292 and recognize the need to deal with the personal trauma and financial stress that families undergo during foreclosure but we cannot support the approach taken in the bill. We believe that many of the problems can be dealt with by private sector initiatives.

Few industries understand the problems of foreclosure better than the mortgage insurance industry. Between 1983 and 1986 mortgage insurers paid over $3 billion in claims benefits to lenders and investors. Each claim represents a borrower who has gone through foreclosure.

Mortgage insurers continually analyze their claims experiences in an effort to develop ways to reduce the number of loans that go into foreclosure. Mortgage insurers are in a unique position from many other members of the mortgage finance industry because we are on the same side of the mortgage transaction as the borrower. When mortgage insurers underwrite loans, we try to ensure that the home will remain affordable for that borrower far into the future. If unforeseeable problems develop with the borrowers' ability to continue to make payments, we attempt to find solutions to those problems.

I would like to share with the committee today some lessons my industry has learned about how to reduce foreclosures once the borrower has developed a problem with his or her ability to make the mortgage payments. These lessons will be considered within the context of H.R. 4292 in order to better evaluate why this initial approach in the legislation must be revised.

The first lesson we have learned is that the financial problems of the borrower must be discovered and addressed at a very early point in time, before the borrower loses a realistic ability to restructure his financial difficulties. This means that problems must be discovered much earlier than when the loan is in foreclosure or 90 days delinquent. Mortgage insurers generally require lenders to notify them when a loan is 30 days in default and to take steps to determine the reason for the default.

Early detection is important also because it enables lenders and mortgage insurers to counsel borrowers to determine if the problem can be resolved. Mortgage insurers consider counseling to be a key factor in preventing foreclosure and many lenders and mortgage insurers have counseling programs to work with delinquent

borrowers. The bill, however, does not mandate counseling at an early stage in the delinquency and prior to receiving government assistance.

One must note that counseling by lenders and insurers is relatively new and this subcommittee may not have had the opportunity to study the new developments. It may be advisable as improvements in this important legislation are sought, to study existing programs.

The mortgage insurance industry has had experience with providing borrowers financial assistance in making their mortgage payments. Some insurers have developed programs either to make a loan to the borrower or in some instances provide direct assistance to help them bring their loan current. Both kinds of assistance, however, have been done in very limited circumstances and on a case-by-case basis. Mortgage insurers look at a variety of factors that cannot be reduced to federal regulations, nor can they be generalized. Mortgage insurers believe they must evaluate whether a borrower deserves financial assistance on a very individual basis.

Mortgage insurers have also found that the borrower's willingness to continue to build equity in the home is vital in any workout program. H.R. 4292, however, does not require the borrower to continue to make even a small portion of his payment. Likewise, we would caution that it is essential that funds from any assistance program not be allowed to exceed the equity the borrower has already put into the house because of the strong possibility that a borrower, faced with repayments for assistance that exceed his or her equity in the home, will default.

MICA also does not believe that Federal law should permit foreclosure proceedings to be postponed. The foreclosure laws of the 50 States are already exceedingly difficult to handle. In some States foreclosure proceedings can be instituted quickly and easily and in other States the borrower can live 6 months to a year in a home without making any mortgage payments.

In addition, the bill does not address the situation where an application for assistance is denied, yet the foreclosure proceeding has been stayed, resulting in increased costs to several parties in the transaction.

MICA finds that while we agree with the spirit of the bill, it has significant overall public policy implications which we cannot support. We believe that the key to any effort to relieve the personal distress of foreclosure is reliance upon the private sector.

We believe a uniform, federal approach to the foreclosure problem invites abuse. It provides an incentive for the borrower to focus on actions that will make him eligible for assistance and not actions that will cure the default. This is not to say that the intent of the bill is to support these unscrupulous practices, but we believe there is no way to prevent them.

Finally, although MICA is supportive of improvements in foreclosure relief, the industry would have difficulty supporting a Federal program that would appropriate an additional $500 million, thus contributing to the Federal deficit. Historical experience has shown that the best cure for delinquent mortgage payments is a strong economy. A primary factor in ensuring long-lasting economic recovery is a determined effort to reduce the budget deficit.

Thank you for this opportunity to comment. I will be happy to answer any questions.

[The prepared statement of Mr. Carlton can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Carlton.

Let me say this. I know Mr. Abbott is going to have to leave. Both in your remarks, as well as Mr. Carlton's, the bill does provide that the borrower, that homeowner, no matter what his income is, must contribute 38 percent of it, not less. However, you had some other, I think, very substantial suggestions, and I would like to think we can work together and see how we can ameliorate some of the reluctance here.

However, some of the suggestions you have made, I think, would be contradictory with the main objective and the thrust of the legislation for relief and help. I think in your observation that the area should be pinpointed. You are coming close to what Mr. Gasteyer was saying about the regional approach that we have relied upon in the home loan bank districts statistics, and that, perhaps a statewide pinpointing would be advisable.

We certainly welcome your help and your suggestions in the modification of the bill. I don't hold any bill to be proclaimed from on high or written in script and the beauty of our process is that this is what the give and take of the amendatory process provide. Mr. Carlton, I realize that your spirit is willing, but the flesh is awfully weak.

We would like to avail ourselves of some of your suggestions, and we certainly are amenable to suggestions. I, for one, am very grateful for your presentations. I think they have been most constructive. I am also very grateful for your presence and the time you have taken to be here.

Yes, before Mr. Abbott leaves, we have one question here that the staff is most interested in. That has to do with as to how to provide relief to delinquent borrowers with high interest rates through the GNMA mortgage-backed securities programs. What is permitted at the present time, and what changes would you recommend?

Mr. ABBOTT. I apologize. I was listening to my associate and I didn't catch the first part of the question.

Chairman GONZALEZ. Well, this is a very important question that we wanted to get on the record before you left. That is, what method of relief could be offered a delinquent borrower with high interest rates whose mortgage is in the GNMA Mortgage-Backed Securities Program.

Mr. ABBOTT. Coincidentally, you asked that question, which was the subject I was discussing with her. We are very familiar with the program that has been mentioned by one of the major Texas mortgage lenders, and we would whole-heartedly support that, where a loan could be bought out of a Ginnie Mae pool and could be recast and put back in a Ginnie Mae pool.

It probably would not be able to be insured by FHA or guaranteed by VA, but nevertheless, since the issuer of the security is responsible from the time of payment of principal and interest, we feel those that participate in the Ginnie Mae Program have the financial ability to remit those payments and would be very much in

favor of such a modification to the Ginnie Mae Program under these circumstances.

Certainly, I would be most in favor of something like that.

Chairman GONZALEZ. We have been in touch with this particular group out of Dallas that had sought out to do this without any kind of statutory provision or legislative action, by seeing what GNMA could, through its rule-making processes, and that is a modification within the 1 year or the change. And is there any reason that couldn't be done, because I have not heard back from the Lomas people. They were going through the process.

Surely private sector——

Mr. ABBOTT. I can't speak to the technical aspect of the GNMA Program, other than they will not allow a loan to be placed in a Ginnie Mae pool after it is over a year old. It may take some minor modification or it could be done at their discretion. I can't speak to the technical aspect of it.

Chairman GONZALEZ. My understanding is, of course, it could be done with the administrative process without necessarily legislative action. I just wondered if you had an idea if there was any reason why that couldn't be done.

Mr. ABBOTT. We understand that the executive officers of the association have met with Ginnie Mae's officials and they are actively considering this process.

Chairman GONZALEZ. Very good. I am glad to hear that. You have introduced Mr. Wood, but I think he ought to take a bow here. He is such a familiar face here and for so many years has been so helpful to the committee.

He is a very wonderful representative of your industry. The record should note that. Well, we have Mr. Roth, I believe came in here first, so we will recognize you first, Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

I appreciate the testimony we had here this morning. I think it was illuminating. I do have a question of Mr. Gasteyer, however. I am inclined to interpret his testimony as saying that you don't care what kind of a bill we pass, as long as the lender gets his money and doesn't have much notice. Is that right?

Mr. GASTEYER. I hope we phrased it more artfully than that. I think it is important, you know, to maintain the opportunity for the lender to perform its function within the community. I think that when we do have a period of severe economic distress, high unemployment in a particular region of the country, that effects the entire fabric of the economy, including the lending institutions and their ability to function, and that we need the flow of interest and principal payments to continue, despite the distress of particular homeowners.

Mr. ROTH. Even the League has a civic responsibility as a taxpayer. I think we should all be concerned about the huge budget deficit. I noticed that Mr. Carlton alluded to that. I believe that is a very good point.

Another half a billion dollars spent for this purpose will increase our deficit some more. We are told by people in business and government as well as economists, that these deficits are a terrible problem. Just to say, "I don't care what kind of bill you pass, as

long as my lender gets his money back", is not going to solve our problem.

In homeownership, there is an agreement between the lender and borrower. Should the government protect this borrower? Here is family "A" working, and the family "B" doesn't have a job. We are going to use Family "A's" tax dollars to pay for family "B's" mortgage.

By my political philosophy, that doesn't seem to add up. As for the economy being so weak today, we have got 113 million Americans employed. That is the most we have ever had employed in American history. If we have got problems now, what is going to happen if we have a real soft economy. Sure you have soft spots in regional areas. You are always going to have that, but you have to look at a nationwide view of this when you are passing legislation, and I think the league and others have a responsibility.

I mean, we are all citizens of this country.

Mr. GASTEYER. The League—Congressman, the League does, of course, represent federally insured depository institutions and they in and of themselves also represent a potential exposure to the Federal Government as part of the partnership between the private sector and the Federal establishment.

I certainly concur with you that the Federal deficit is a matter of major concern to all Americans, certainly including our Members, too. I think if we don't take a back seat to anyone in trying to stimulate attention and concern about the magnitude of the deficit, I suppose, you know, it falls to your responsibility to set priorities of how we allocate our government's resources and honor our government's commitments.

I certainly don't underestimate the difficult choices that you have before you in that regard.

Mr. ROTH. Thank you. I have only so much time, but one other thing. The author of this legislation is one of the best liked people in Congress. So, you don't want to put it on a personal basis and I don't. I want to keep it on a philosophical basis.

I have one question. I want to ask a simple question. Do you think this bill is fair to the American taxpayer?

Mr. GASTEYER. I think it is. I answer in the affirmative. It is a carefully targeted bill that attempts to establish meaningful eligibility standard and I think it is a fair balancing.

Mr. ROTH. Fair to the lender.

Mr. ABBOTT. We hope any legislation that comes out of this would be as fair as possible.

Mr. CARLTON. I think that eligibility is our basic problem with the bill.

Mr. ROTH. Pardon me?

Mr. CARLTON. That is our basic problem. It would be very difficult to make the determination who qualifies for assistance. One family "A" may make all efforts to honor their obligation whereas family "B" may not try and reduce the likelihood that foreclosure will occur. We question whether it is fair to give the money not only to family "A" but to family "B" as well. Counseling is needed in determining eligibility to this assistance.

Mr. ROTH. Thank you. I appreciate that.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Roth. I appreciate the compliment, though somewhat qualified. I will pass on.

Mr. Vento?

Mr. VENTO. I apologize for being late and I haven't had time to read all of the testimony of our witnesses. I noticed that some of it is quite lengthy. The basic point and I don't really know in terms of reading it, but I get the impression that Mr. Carlton opposed the legislation.

Mr. Gasteyer and Mr. Abbott are interested in working on this problem, when they agree with all the specifics, I don't know. That is the impression I get from listening to the questions back and forth. What about—you know, there is discussion about the $½ billion that is authorized here to help with these mortgage payments, temporary assistance.

There are various programs that have been tied up in court, forbearance programs that have existed, so they are not workable. What is the magnitude of the problem that we have? Isn't—there is a problem with regards to this issue, is there not, Mr. Gasteyer?

Mr. GASTEYER. Yes, I believe so. Perhaps the chairman of the subcommittee is more conversant with the precise details than I would be, but it is my understanding that in much of the Southwest, certainly the area around Houston, you have mortgage loan delinquencies running at rates in excess of those experienced in the 1930's so there are some very severe problems.

Mr. VENTO. You know, one of the things that we intend to go—the big picture, we go to helping an individual homeowner to the entire economy and the deficit and if we want to help this. I heard the expression maybe we ought to deal with the overall economy and somehow some of this is going to trickle down and change this around.

But the real problem is that we have with regards to financial institutions, we have insured those institutions and today we are talking in the magnitude of any type of an assistance in those programs all the way up to $50, $60, $75 billion, taking into consideration all the insurance funds that we paid in, and the extra additional borrowing that will go on plus, of course, the discussion about whether or not there will be a direct infusion of Federal dollars. Isn't that right, Mr. Gasteyer, when you agree with all the specifics of the GAO reports and the others, there is a very real possibility of a substantial number of institutions that have difficulty?

Mr. GASTEYER. That is certainly true, both in the thrift industry and the commercial banking industry.

Mr. VENTO. I think the appropriate question to the committee is part of this, before we go off to the entire economy, at least to look at the immediate effects, some of the things that go on in between and dynamics that take place in terms of not an entirely macro picture, but one that is a little more than micro; that is to say, you know, what can we do to enable these homeowners to work there way out of these particular problems that in good faith in some instance it may not be workable, but it may be that when we dump a lot of other properties on the market through the foreclosure process, we are actually suppressing the real estate values of those very markets, are we not?

Mr. GASTEYER. That is right.

Mr. VENTO. Compounding the problem for the S&L's and banks as well as, of course, to say nothing about the heart-break and hardship on the individual homeowner or mortgage lender that might be affected; is that correct?

Mr. GASTEYER. Yes.

Mr. VENTO. You know, I just think that it is fine to get up and, you know, Mr. Carlton is fine and made comments about the deficit, but the fact of the matter is, it reminds me of the mechanic that says you can pay me for an oil change now or come back and have the entire engine replaced later.

Mr. Carlton?

Mr. CARLTON. That is what I am afraid is happening is that we are retuning the engine for many families when we don't need to. On the other hand——

Mr. VENTO. We are just trying for the oil change. We are the prudent, common sense, practical, tight-fisted Henry Gonzalezes dealing with the federal purse strings here, very stingy fellow, indeed.

Mr. CARLTON. Insofar as Mr. Vento's realization that we support the bill's spirit, as this legislation progresses, we would be more than happy to continue to participate in its development and we don't want to withdraw ourselves from the discussion.

Mr. VENTO. I would like to see from these mortgage lenders, Mr. Chairman, and our participants, is we want to solve the problems before they become more serious problems is what we are trying to do to provide stability. One of the things, and we have a subcommittee, the Banking Committee called economic stabilization, and talking about how we can in our role in terms of the programs, we have provided a greater degree of stability.

We don't object that there are the jobs in society, but Congress has tried to recognize how we can provide an additional degree of stability. We don't want to certainly misuse or extend privileges or forbearance, but we see a lot of institutions and the entire process in some sectors of the country that is fragmented and deteriorating and we want to prevent that, if possible.

I think that is really what the chairman is after as he sees this more keenly in his own area. We have had it in various pockets. I come from Minnesota and we have had it in some of the rural areas in the past. VA has problems with their loan problems. It isn't just the private sector mortgage portfolios that face this.

I understand the concerns of the mortgagors saying that we have put out some bonds and we have people that provided an interest rate at an assumption of a certain condition and treatment in terms of that paper. So we have to have reliability and predictability there. You can't change the rules in that particular sense.

On the other hand, I think that if everyone is going to, you know, we have to assume, I suppose, some forbearance. You have indicated in your testimony with regards to these types of loans in order to make this work, if it is all going to come from the taxpayer, obviously, it makes it tough. We don't want—we want these dollars or these types of programs to be in addition to—in other words, to supplement, not to supplant, the good efforts that are going on.

I hope that you will work with the chairman. I think it is a realistic and a very important problem, because down the road these issues are going to come back in a different form and I think we ought to take note of what we did beforehand, rather than to permit this to become the overwhelming problem that—I think it is easier to solve like this—if we put a half billion in this here, will we save 3 billion down the road in terms of FDIC or FSLIC insurance programs.

That is the questions we ought to be asking ourselves, I think. I don't think it is being asked. I would be happy to yield to my colleague, the gentleman from Wisconsin.

Mr. ROTH. I thank my friend Mr. Vento for yielding.

You bring up a very interesting issue I didn't think about before in your questioning. That is, the growing analogies between oil changes and engine repair and so on. Is this bill going to turn into a taxpayer bailout for FSLIC?

The reason I ask that is you have Vernon Savings & Loan with a 92 percent delinquency rate. Does that mean this legislation is going to go in and save those lenders and is going to turn out to be a taxpayer-financed bailout, because I wouldn't want to see that.

Mr. VENTO. This is an effort to try and deal with the problem for the financial institution. As far as those financial institutions, their problems are, I suppose, I don't understand the scope of this legislation to deal with it.

What we are trying to do is deal with the homeowners in trying to provide a degree of protection to them and to avoid the type of infusion of Federal dollars and sale of financial institutions and mergers that has been the role today.

We have had this period of 4 or 5 years when the economy in these areas have undergone these shocks, the oil shock and various other types of stress. What we are trying to do is, and the point is, you can either pay for the oil change now in terms of these programs, or you can pay for the replacement of the engine a couple years down the road. We are trying to avoid that and we think this will be helpful.

It is not the only answer. The direct investment and policies of those institutions is as much responsible as the economic conditions that they find themselves in, in my judgment. Of course, that amendment on the Floor only got a half dozen votes or so. You recall I was one of them along with some of my colleagues on your side that tried to deal with this.

This is trying to avoid those types of this. We are not, in fact—the institutions, decisions in those are largely made administratively. We don't get into the act here of making that. We ought to be a little more into the act of making those decisions, like putting FADA out of business. But I am trying to put this into some prospective because this is part of the picture. I think it is directly related.

So this half a billion dollars now of authorization will prevent financial institutions down the road holding this paper from having severe problems. It will prevent the deterioration of the housing market in those areas which have the severe impact.

You know, you can make a choice and say we don't want to do anything. We are going to avoid spending the dollars now. This

Chevrolet will run forever. You are going to find out that doesn't happen.

I think it is a question of facing up to those issues now and being realistic about what the future of FSLIC and some of the other insurance funds are, and their ability to solve their problems.

Mr. ROTH. Will the gentleman yield 30 seconds?

The gentleman from Minnesota is one of the most brilliant Members we have in Congress and he realizes that oil never wears out. It only gets dirty. If $10.8 billion——

Mr. VENTO. You have been listening to too many Mobil advertisements.

Mr. ROTH. I have an inkling that a half billion more won't either. Thank you.

Mr. VENTO. Mr. Chairman, I rest my case after that illustration.

Chairman GONZALEZ. I am surprised that my esteemed colleague from Minnesota would have swung at that curve from Mr. Roth which happens to be an unconnected curve because this has nothing to do with FSLIC or bailout or anything like that.

Mr. VENTO. Well, things aren't going too well. Wait until the end of the season, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Ms. Pelosi.

Ms. PELOSI. Thank you, Mr. Chairman.

I, too, want to apologize to our witnesses for my tardiness. I will blame it on the airlines because that is where the blame should be placed. I am sorry I missed your testimony. I look forward to reading it. I know you have provided great insight to the committee on this issue before us. I commend our chairman for H.R. 4292, which would prevent more families from losing their homes.

It is interesting to hear my colleagues go back and forth on this issue. It gets right to the heart of the purpose of this committee. The Banking Committee, especially the Housing Subcommittee, brings into focus questions of what is the public interest, how do we protect the consumer, the taxpayer, and how do we sustain the safety and soundness of our institutions, as my colleague from Minnesota pointed out, which is the public interest as well.

I commend the chairman for this bill because it provides temporary financial assistance to certain homeowners who are faced with the threat of foreclosure and will not only reduce the financial cost of homelessness and other byproducts of this foreclosure to our society, but also reduces the human cost to individuals and families who would otherwise suffer the loss of their homes.

I hope that these statements of support to work on the legislation will be carried out. I believe this is very important legislation, considering the alternative to the taxpayer and to the homeowner. I think it is necessary and it makes me pleased to be on this subcommittee because it gets right to the heart of the matter.

Are we creative enough to solve these problems by bringing the resources available to us through our agencies, through our financial institutions and through our meeting the needs of people and protecting the taxpayer. I think we are and I think this bill goes a long way toward that.

I look forward to reading your testimony and working with you.

Thank you, Mr. Chairman. I have no questions.

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Chairman GONZALEZ. Thank you, Ms. Pelosi, very much.

Mr. Wortley.

Mr. WORTLEY. Thank you very much, Mr. Chairman. You are a great humanitarian and very compassionate friend, whom I have high respect for.

I must say that I am a little bit skeptical about the plans to incorporate H.R. 4292 into the homelessness authorization legislation. As we all know, the McKinney Act does enjoy very strong bipartisan support. I am fearful if we add this as an amendment as you are suggesting, that the half a billion price tag on it could jeopardize the support for the reauthorization of the McKinney bill.

With that being said, I would like to ask Mr. Abbott a question. I understand that the Mortgage Bankers provide a quarterly tracking report on delinquency and foreclosure, so I targeted this question just for you. Can the MBA estimate the number of mortgages in the Federal Home Loan districts targeted for assistance in this bill that we are discussing this morning? Can you furnish us with a record of the estimated costs of bringing these mortgages up to current balance?

Mr. ABBOTT. The MBA economics department estimated the number of problem loans, conventional and VA in each State due to unemployment or underemployment, problem loans were defined as 90 days or more delinquent. We assumed an average of 8 months in arrears, that would include forbearance, and so forth. The cost of reinstating these loans in the five Federal Home Loan Bank Board districts currently eligible for the program was estimated to be $2 billion to bring——

Mr. WORTLEY. Two billion dollars?

Mr. ABBOTT. Two billion dollars.

Mr. WORTLEY. That is a rather healthy amount. We are talking about a half billion——

Mr. ABBOTT. One other point that I meant to note in my testimony, I referenced targeted areas. That figure could be reduced if it was targeted to the targeted areas.

Mr. WORTLEY. Just to the Southwest or high unemployment areas?

Mr. ABBOTT. To the more targeted areas of significantly high unemployment or underemployment rather than the five Home Loan Bank Board districts.

Mr. WORTLEY. Thank you.

I don't know whether any of you gentlemen are economists and hopefully none of you are. That may be to your advantage. The U.S. economy is presently performing in a healthy manner, as evidenced by most of the economic indicators we see. We even see some signs that the recession in the Southwest is bottoming out.

This being the case, is there really a compelling need for this emergency action requiring a large Federal expenditure, and intervention to abate foreclosures as is being proposed in H.R. 4292?

I might ask—and this is for each and every one of you—are there any less costly or less intrusive options that any of you would recommend? Start with Mr. Carlton on this end of the line.

Mr. CARLTON. We don't have a specific recommendation today. We would be happy to go back and study the issue and report back at a later time.

Let me add that I was impressed with the presentation by the HOPE programs and believe any solution must involve counseling.

Mr. WORTLEY. That was very impressive.

Mr. CARLTON. We would be very glad to come back.

Mr. WORTLEY. How soon will it be that you would come back to us or advise us?

Mr. CARLTON. A couple of weeks.

Mr. WORTLEY. Could you send that to all of us individually as well as to the chairman?

Mr. CARLTON. Yes.

[The referred to information can be found in the appendix.]

Mr. WORTLEY. The Postal Service sometimes has a slight lag on the Hill. I would appreciate it very much.

How about you, Mr. Gasteyer?

Mr. GASTEYER. Congressman, if I just understood Mr. Abbott's response correctly, I guess there is a significant need. Though, again because of the broad-brush way we categorize this by Home Loan Bank districts, perhaps it would be a smaller number than Mr. Abbott just computed.

For instance, in the Seattle Home Loan Bank district, things are going great, but terrible in Oregon, according to my information in the home lending business. Certainly I don't think this needs to be an exclusive approach and maybe there are some other options and ways of approaching the problem.

But in my oral testimony or in my summary statement, I pointed out that I think there is some merit to setting the framework in place in case we do have future economic downturns, too, that this is a bill that originated back in 1983, the need for it tended to fade away or at least the interest in it faded away, and yet I think it would have come in very helpful during the last 2½ years in pockets of the problem areas of our regional economy.

So maybe the need isn't compelling but there may be a longstanding governmental purpose to be served by structuring a framework here.

Mr. WORTLEY. Do you think this is a better approach than it would have been to have called for a larger recapitalization of FSLIC?

Mr. GASTEYER. I don't see the connection there, the direct connection. Here you are talking about help to families and home borrowers, very poignant testimony that was on the first panel. In the other situation with FSLIC or the FDIC, you are talking about the integrity of our entire banking structure, and so I think it is a bit of apples and oranges there.

Mr. WORTLEY. Mr. Abbott.

Mr. ABBOTT. I do think it is important that we do understand that there is a lot of private and individual initiative in this forbearance process that was saving the taxpayer a significant amount of money.

Under the FHA Program, as I am sure the subcommittee knows, after a loan becomes 60 days delinquent, we send out a pamphlet that explains the canceling procedures and those persons to whom they may contact about canceling. It explains the assignment process with HUD.

The veteran has the right and opportunity to contact a local VA office for the refunding or assignment, so to speak, of the VA loan, and on conventional loans, there is a significant amount of ingenuity and creativity that is offered by the lenders in working with the particular borrowers.

I know in our particular case we offer to forbear on the arrearages and perhaps maybe take a second mortgage with a very slow repayment process should the property be sold.

I want to be sure that the committee understands that there is a lot of initiative taken to avoid some of these costly—some of this cost. Again, I would suggest that we be more strategic in geographically targeting the assistance, that we focus just on the arrearages and we focus on those borrowers who we do feel have the ability to repay, reinstate.

Mr. WORTLEY. Do you have any data on how many people who are within arrears take the initiative by coming to the institution first and saying, "Hey, I am laid off on my job, I have an unusual illness," or some extenuating circumstance. "Can I be granted some degree of forbearance?" Does that happen very often?

Mr. ABBOTT. Yes, it does. We have a significant collection, the department I come from, as well as most of the other mortgage companies, and they begin that collection and counseling, you might say, process when the loan becomes 30 days delinquent.

In some cases, under Fannie Mae requirements when the loan is 15 days delinquent, there is a dialogue that begins early on in the delinquency process. So when you reach the 30- and 60-day level of delinquency, there has already been dialogue in trying to determine the ability of the person to repay the arrearages.

Mr. WORTLEY. One final question, if I may, Mr. Gasteyer. Is passage of this piece of legislation actually giving license to the industry to continue to be something less than prudent in their loan techniques? I mean, not everybody we are talking about here suddenly fell upon hard times. Some of these I question whether they were all good loans to begin with.

Mr. GASTEYER. We are talking about single-family owner-occupied home loans, modest loan amounts, working-class Americans, and at least it would be my observation that most families consider making that mortgage payment—that is the last payment that they want to get slow in responding to their obligation.

Single-family home mortgage loans have been a very, very secure form of investment. The problems in the banking and thrift industries that have given such exposure to the Federal Government, I don't think it is attributable to single-family home mortgage lending.

Mr. WORTLEY. It has been called to my attention that the bill that we are discussing today is not limited to owner-occupied dwellings. A considerable number of these are involved in speculation. Would you, all three of you, recommend limiting it to owner-occupied dwellings as opposed to speculation?

Mr. ABBOTT. In our testimony we strongly recommend it be limited to owner-occupied dwellings.

Mr. GASTEYER. That is a good idea.

Mr. CARLTON. Yes, sir.

Mr. WORTLEY. My gosh, we have unanimity on that subject.

I have exceeded my time. Thank you very much for your observations. It has been a good hearing.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much.

Mr. VENTO. Mr. Chairman?

Chairman GONZALEZ. Yes.

Mr. Bartlett. We have heard from Mr. Vento.

Mr. BARTLETT. Thank you, Mr. Chairman.

I do appreciate the testimony of both this panel and the previous panel, which I was able to be here for the testimony of the previous panel. I reviewed this testimony in writing. I do apologize for having missed this panel with another meeting this morning.

I first want to ask, in reading the testimony of the Mortgage Bankers and others, my first question is with regard to the direction and the type of legislation this is. This is in many ways old, worn-out, tired legislation that was not adopted by the 1983 Congress for quite good and valid reasons, that takes a very real difficulty, desperate situation of individuals who lose their employment, and sends them in the wrong direction. That is to say, it sets up a new Federal bureaucracy of payments to pay that mortgage with a new Federal program. However it is structured, whether it applied to owner-occupied or other kinds, it discourages lenders, it seems to me, and home buyers from doing what needs to be done, to negotiate forbearance when forbearance is called for.

It further could have the effect of causing lenders to deny new loans because they would in essence believe they could be stopped from maintaining security on their property.

Last, it tended to discourage what is a very helpful development of private sector, nonprofit organizations such as we heard before, such as Project HOPE, and other things.

My question to the three panelists, if you could tell us directly, are you and your organizations, are you for or against this type of legislation as a way of dealing with this problem of persons who can't pay their mortgages due to employment loss?

Leaving aside how you dress up the legislation, if you could dress it up, do you think we ought to do something like this?

Mr. Abbott.

Mr. ABBOTT. One key point in this legislation, as mentioned by the chairman earlier, it also requires that the borrower pay as much as possible, up to 38 percent of their income towards this payment. So it requires that they buy into this reinstatement process, and it really allows you to focus on those that are sincerely interested in keeping the house.

Mr. BARTLETT. Do lenders do that already?

Mr. ABBOTT. We in fact do. We come up with a number of very creative forbearance programs and reinstatement programs, and in fact we are doing a lot of these types of things.

Mr. BARTLETT. Are you for or against this bill?

Mr. ABBOTT. We are for the general concepts of the bill with the recommendations we included in our written and oral statement.

Mr. BARTLETT. Mr. Gasteyer.

Mr. GASTEYER. Likewise, Congressman, we were for the bill in 1983 and we are for the bill today. Again, fine tuning and targeting to encourage the maximum amount of forbearance on the part of

institutions with them meeting their responsibilities as financial institutions and particularly interested in the cooperation of the regulatory agencies' incentives to encourage restructuring of loans. That is particularly important to portfolio lenders. Mr. Abbott stated it very well.

Mr. CARLTON. We are basically against the bill, in that it could have a harmful effect on the private sector efforts to deal with the foreclosure problem. For example, we wouldn't want to see the bill adversely affect the efforts of professional counselors such as in the HOPE Program.

Mr. BARTLETT. Thank you, Mr. Chairman. I yield back my time.

Chairman GONZALEZ. Thank you, Mr. Bartlett.

Again, I will say again what I said before. I am very grateful for your cooperation, your contribution, the time you have given, and I hope you don't miss your plane, Mr. Abbott.

Mr. ABBOTT. Thank you. I will not.

Chairman GONZALEZ. We will be, of course, in touch with you because we look forward to working on improving the language of the bill.

One way of looking at this, and it is one of the main reasons that I even thought of bringing up the matter at this point, is I look upon it as a homelessness prevention bill. We have gotten into this cycle now of institutionalizing the emergency homelessness assistance. I think that is the worst thing that can happen, not this other groundless fear.

I think we should have, as we attempted in 1983, to do those things that would anticipate and therefore prevent a crisis and particularly homelessness. This is what I call it. I call it a homelessness prevention act.

I certainly do intend to try to give it an aspect of some emergency as was given a year and five months ago to the homelessness emergency legislation. I just hate to think that we would accept this as we accept all of these rosy economic statements, very similar to the ones being issued in May of 1983. But which even a very careful scrutiny of these same statistics don't reveal that well-being.

No matter how much we want to brag about employment, we still have over 6.5 million Americans unemployed. That was totally unacceptable just 15 years ago. That is what the official count is. The real count, those that have disappeared from the unemployment rolls because they have exhausted unemployment, is much more than that.

When you add the underemployed, we have a problem, a problem in which, if we had adopted this legislation in 1983, the Dallas area, for instance, wouldn't have met the targeted trigger, because in 1983 the 60-day default rate was 1.42 percent, as compared to 6.18 today. That is regional. I mean, that includes more than Dallas—Louisiana, Mississippi, New Mexico, Texas. But it wouldn't have targeted them.

So the position I am taking is that Mr. Vento made reference to the fact that, yes, my particular area, Southwest Texas, but that wasn't a problem in 1983. It is today. What I am saying is that we have to look beyond our own parochial interests—we are acting in

a national capacity here, and this is the only reason that I feel there is an urgent need to consider this type of an approach.

Of course, we don't draft a perfect measure. This is somewhat modified from the 1983. As a matter of fact, if I had my way, we would have far more liberal interests rate repayment. But naturally, one has again to be realistic, but I think that there is also a moral question of responsibility. In other words, do we wait until it is just our area that is effected until we act, or do we act in such a way that we anticipate that this same thing is possible of happening not only in other regions but maybe in the entire nation, because the specter that is really riding us and is causing us to lose control of our own economic destiny are the external forces represented by this $160 billion deficit in the international trade account.

We had again a false presentation of statistics just last week saying that there is a big downward trend, but that was like the crime reduction statistics of the 1970s when they were saying the rate of crime has decreased 6 percent, but they were talking about a decrease of the rate of increase. The rate of increase had decreased 6 percent. We had a 6 percent drop as compared to a year ago, but that is meaning less when we consider the overall monstrous proportion and what that means is those things that intimately affect us, interest rates, are no longer subject to the control of our institutional powers, such as a Federal Reserve.

The Federal Reserve Board maybe can do something temporarily, but an overall external impact of forces that are now beyond the control of the Federal Reserve Board are the ones that are dictating interest rates. We are saying let's not sacrifice the most fundamental wealth any country has, and that is its stable family. If we can't extend a helping hand there because we are overwrought with the perversity, I will point that out, we are spending $1.5 million a day in El Salvador right now, that is just Salvador.

Now, certainly that is a reverse in priorities if we say because of our inability to find the same source of money for Americans we can't extend this kind of program. So, I, for one, am very grateful, I think you do show your concern. I understand if there is some reluctance to the exact contents of the bill, but certainly if the spirit is willing, we should be able to forge the right kind of legislation and with the understanding of our colleagues which up until now has certainly been there, we hope to be able to do so.

Mr. Vento. Mr. Abbott has to go—I could ask the other members questions. I don't want to keep him.

Chairman Gonzalez. Mr. Abbott has been told that he is free to leave at any time after his presentation.

Mr. Vento. He raised the question of an overall $2 billion cost and so if—for the record, the point is the legislation would only be applicable in certain districts. If it were applicable in just the districts where you had the most severe problem, that would reduce that cost, is that correct?

Mr. Abbott. I understand that was estimated in five Home Loan Bank Board districts. Our recommendation was it be targeted beyond that.

Mr. Vento. That was I think a good suggestion, Mr. Chairman, insofar as trying to pinpoint where the problems are.

The other question I had is that this provides 3 months of assistance, is that correct, this bill does, 3 months of assistance?

Mr. ABBOTT. I think it is up to 18 months.

Chairman GONZALEZ. A year-and-a-half.

Mr. VENTO. The suggestion also was it should only be applicable to home ownership. Obviously the chairman intended, since it doesn't affirmatively say so, it should.

Chairman GONZALEZ. You are right, the intent is there, but the language ought to be tightened up.

Mr. GASTEYER. It says in 5(a)(1) eligible properties must be the principal residence of the mortgagor involved.

Chairman GONZALEZ. We could firm that up a little bit more.

Mr. VENTO. So I thought that was—I thought that was pretty clear in terms of everything. I don't want anyone to leave the impression I think was left, it could be applicable—and these are noninsured, they don't have VA or FHA insurance. I think it is overall housing policy that has contributed mightily to the problems of homelessness, and so I think that, you know, there is reason, in terms of basic housing policy, but I share some of the concerns about, while we have general consensus on the homeless legislation, that we ought to move ahead and try to deal with this in the broader housing policy issues.

Although I think this is an appropriate program, Mr. Chairman, I don't know what we could do to make the dollars, stretch the dollars so they go further, but I think anything that could do that—you obviously have the 38 percent contribution—I am willing to work with you and others to try and insure that. I think this is something we should have in place. It represents a counter-cyclical type of program to prevent home owners, people trying to buy their home—we ought to be encouraging home ownership.

When someone takes on this substantial responsibility, I look at my own family and own boys, they are buying homes and so forth, if they were to have some difficulty, it would be good to have a program that would permit them during a period of this type to retain home ownership.

I would be happy to yield to the gentleman from Texas for this point.

Mr. BARTLETT. I thank the gentleman for yielding.

The Mortgage Bankers Association may be able to help us, because I understand you provide a quarterly tracking report on delinquency and foreclosure. I wonder if your association could estimate for us the number of mortgages in districts targeted for assistance in H.R. 4292 that would qualify for assistance today, and could you furnish us for the record that number of mortgages that would qualify for assistance under this bill and your estimated cost of bringing those mortgages current, just simply bringing them current?

Mr. ABBOTT. While you were out, we did furnish the dollar amount, but we can fine-tune the individual statistics in terms of actual numbers in those districts and furnish that to the committee at a later date.

[The referred to information can be found in the appendix.]

Mr. VENTO. We would like to have some guidance as to how we can subdivide the districts up if there is natural lines—to try to focus the dollars where they are needed, rather than to—

Chairman GONZALEZ. Mr. Gasteyer had suggested breaking down these districts State by State.

Thank you, gentlemen, very much.

Our next panel consists of Mr. Rene J. Ferran, President of the Home Builders Association of Greater New Orleans, accompanied by Paul Killinger, Executive Vice President, Home Builders Association of Greater New Orleans. We have been informed this great great Member of Congress, the lady from New Orleans, Mrs. Boggs, is on her way. Her airplane landed at 11:10, so she is on her way, and she will be with us. We were going to ask her to introduce the witnesses, but we will defer for her arrival, and then we will have her give us a late introduction.

In the meantime, we thought we would proceed with your testimony. If there is no objection, we will start with Mr. Ferran.

STATEMENT OF RENE J. FERRAN, PRESIDENT HOME BUILDERS ASSOCIATION OF GREATER NEW ORLEANS

Mr. FERRAN. First of all, Mr. Chairman, I would like to thank you and the committee for giving us the opportunity to testify here today in support of the Emergency Housing and Assistance Act of 1988. My local Association, New Orleans, has been in the midst of some economic upheaval that we haven't seen since the Great Depression.

Our housing market there is in shambles. One of the big problems in our marketplace is delinquencies and foreclosures.

There are many attendant problems with foreclosures in our marketplace, the main one being it is hard to get back into a steady consistent normal market as long as the foreclosures are taking place and at the rate at which they are taking place. When you have a foreclosure, you have not only the attendant loss that someone has in that particular loan, but what you also end up with is a diminution in value of entire neighborhoods, and when that takes place, you have good performing loans which become jeopardized. People are sitting there with loan balances that are less than what they down the street sold for, and so—greater than the sale prices of the houses on these foreclosed properties, so what happens? They have the tendency to walk away from their mortgage loans as well, and that keeps feeding the issue. We end up with a dog chasing its tail, and we can't get out of it.

When we go to sell properties, we have extreme appraisal properties, these foreclosed properties are coming up in every appraisal we have, and you can't get a value for a property. So even on new homes that cost a certain dollar amount to build, in many cases you can't recover the actual cost of construction.

So what is happening, basically, lenders now, because of these high foreclosure rates and the fact people are walking away from loans, are becoming gun-shy in the community, and so our financial markets are all in an upheaval.

It is strange that you could have a buyer who is not capable of making monthly mortgage payments, due to the economic condi-

tions that we are in right now with a record high unemployment and joblessness, and the lender will not work with that buyer, at least that home owner, but yet that loan will then be foreclosed upon, the property will be foreclosed upon, it will then go back to the fund and will go up for foreclosure sale, where at that time the lenders are dealing with 7 percent loans with 3 percent down-payments and re-negotiating loans and rates, taking not only that, but a loss on actual sale of the property.

So the losses inherent in that one foreclosure are not just the loan losses for that one loan, they are also readjusting interest rates, taking a loss there, they are taking a loss on the sale of the property and all these losses are being dumped into the FSLIC system, which I believe is in need of $35 billion or more to bail it out and make it healthy again.

So our position in support of this bill is that it could put some orderly, some order back in our financial markets and home ownership in our State. We, as you know, are faced in a similar situation as Texas, we have had an economic depression bestowed on us because of this oil industry, and we have not just people not working, or not homeless because they are vagrants, we have productive wage earners that have worked all their lives, because of economic times, are forced into situations where they can no longer make those monthly mortgage payments. We support this bill in its entirety in order to do something to address this problem in our community.

I would like to call on Paul Killinger. He may have some additional comments.

[The prepared statement of Rene Ferran can be found in the appendix.]

Chairman GONZALEZ. Thank you very much. That was a very succinct and to-the-point statement. Sorry to hear about the problems our Louisiana neighbors are having. They are very similar to the ones we have been undergoing in the Southwest portion of Texas. You have described the situation that we have been trying to cope with in my home town for about a year-and-a-half.

Mr. Killinger.

STATEMENT OF PAUL KILLINGER, EXECUTIVE VICE PRESIDENT, HOME BUILDERS ASSOCIATION OF GREATER NEW ORLEANS

Mr. KILLINGER. Thank you, Mr. Chairman. I, to, would like to thank you for the opportunity to appear here today to discuss these issues of importance to New Orleans, San Antonio and numerous Sunbelt communities related to oil. The problem by no means is limited to our areas. I understand the restrictions on Fannie Mae financing in part of as many as 25 States, so as you pointed out earlier so eloquently, in 1983, the legislation you proposed wouldn't even have affected San Antonio, and maybe it is time that we look beyond our parochial, selfish interests at what is occurring in these areas and what is happening in these economies.

The bill we have before us today would provide relief in the amount of $500 million. I can tell you that the valuation of real estate in New Orleans alone totals several billion dollars, and somebody is suffering those losses. Those are not paper losses.

Those are losses being suffered by Federal agencies, being suffered by Federal institutions, being suffered by individuals, being suffered by families.

If a family home goes in value from $150,000 to $100,000, that family lost $50,000. That is not a paper loss. That is $50,000 less they have to educate their children, that is $50,000 less that they have for their retirement, and we are seeing that kind of problem.

We were very interested in the testimony of the panel before us. We found it instructive in that we don't believe many people know what is going on in our areas. Without your willingness to hold hearings like this, no one would know. We would be sweeping this under the carpet. We wanted to sweep this under the carpet for a long time ourselves and say we can get better on our own, we are tough guys.

I am not sure these communities are going to get better on their own. We have heard the statement lenders are forbearing wherever possible. That is not the fact. We have heard the private sector can handle this situation. In the case of the mortgage insurance companies, it is. They have abandoned our market, they have effectively red-lined us, so the private sector is handling it, I have to say, unfortunately.

We would like to thank the Savings League for endorsing this legislation. I think they have a greater sensitivity to these issues than some other organizations. We find the only guidelines we can find for troubled debt restructuring published anywhere in the Federal Government were published by the Federal Home Loan Bank on 12-31-87, on TDRs. What constitutes a TDR, what doesn't constitute a TDR. These have been instructive to savings and loans, and quite frankly the members of the League work far more closely with borrowers to try and bring relief, to try and understand their situation, to have some compassion.

We are told lenders participating in HUD's Assignment Program, many of the larger lenders are uninterested and are looking to cash in the loans. We hear we are coming here asking for a bailout, for instance, and we are not the only ones that may be insensitive to the Federal purse strings here. Whether or not, Mr. Chairman, this legislation is adopted in the form of making an appropriation for this problem, we would encourage that the promotion of forbearance in section 2 in the legislation be expanded. We have to bring these Federal and quasi-Federal agencies and trade associations, we have to bring everyone to the table somehow, Mr. Chairman. We have to try and unite our differences on these issues, if you will, and recognize them and work together.

Without that, unfortunately the home owner is going to continue to bear the brunt of this situation. Thank you.

Chairman GONZALEZ. Thank you, Mr. Killinger.

I will say this, the distinguished colleague from New Orleans is here, and I was going to recognize her in order to make a late introduction here. We announced you were on your way, and we appreciate all you have gone through to be here. I just wanted to say this, Mr. Killinger. I don't consider this any kind of a bailout any more than what we have doled out, billions and billions and billions, for the richest institutions in this land, and through tax expenditures enable the affluent home buyer to get subsidized by the

taxpayers. This is a taxpayers' bill, because home owners pay taxes, and that is what we want to hold onto.

So I just want to dismiss this notion that this is a bailout, it isn't, it is just a helping hand for those who because of no fault of their own, with a little bit of help can continue to be that strong yeomanry of our country, home owners, taxpayers, raisers of families, and that is what I think is the most important thing we can do to target on.

I just had to get that off my chest here, because I see—there used to be a very distinct personality from New York about the time after the World War, or about World War I, by the name of Meier London, and he was a self-proclaimed socialist of that day, he was a lone member in the Congress and used to be very outspoken, and he would get some of the colleagues to yell at him and tell how he was trying to socialize, and he would say "The only difference between you boys and me is that I am for socialism for the poor and you all are for socialism for the rich." I happen to believe in socialism for both.

So, you know, the notion that this would be considered a bailout, I think, is unacceptable because we had the testing during the Depression, and the Congresses had faith in these American citizens and it paid off because, as we said earlier, it yielded at the end of the program close to $400 million to the Treasury. That meant that a little help enabled the people to stay strong, finally get employment, pay back, hold onto their homes and pay taxes.

With that, Mrs. Boggs, Thank you very much. I will be very formal. We always love to call you Lindy. But thank you very much for returning all the way from the airport, from New Orleans. It means a lot.

Mrs. BOGGS. Thank you so much, Mr. Chairman. It means a great deal for me. Thank you for being gracious enough to wait for me. The plane was almost on time, but not quite.

Mr. Chairman, I was sitting here thinking that I had the honor of working with this committee during the years in which we had the so-called bailouts of New York City and the so-called bailout of the Chrysler Corporation, both of which, of course, paid back on the loans and are thoroughly in accord with the kinds of restrictions that were placed upon them in the legislation. This legislation does indeed envision a loan type of operation where the loan arrangements will be paid back when the industry and the home owners are both on their feet. I am very, very pleased that you have recognized that this is so important to the people, particularly those in the so-called Southwest Region, your region and mine, where we have been suffering so disastrously from the problems of the energy industry and the shipping and farmlands until this year. It is a very encouraging word to hear you, Mr. Chairman, so in favor of this type of legislation.

During the considerations of the Appropriations Subcommittee bill, as you know, I now sit on the HUD and Independent Agencies Subcommittee of Appropriations where both HUD and the Federal Home Loan Bank Board are funded. I did ask HUD to study the current foreclosure policies and to report back about what could be done. That was before I was aware of this legislation which dove-

tails with my interest and my request; and I am very, very honored that you have allowed me to come here today.

Mr. Chairman, I come here with two stalwart citizens. You can't imagine what has happened to the homeowner situation in Louisiana and in my home district of the city of New Orleans. They are here representing not only the Greater New Orleans Home Builders Association but also the Louisiana Home Builders Association. They are very, very fine representatives. The President, Rene Ferran, is in a family business. It is a distinguished old family that has a record of fine citizenship and of good business enterprise, and they have been employing the proper tactics all of these years for a successful operation. Certainly if they are in difficulty and if their homeowners are in difficulty, it is through no fault of theirs and their business enterprise practices. It is the fault of the terrible state of the economy in our area.

His association largely deals in single-family homes, and it is that type of family operation—owned by a family promoting home ownership in single-family homes. And so it is sort of the bulwark of our citizenry that is represented by Mr. Ferran.

Paul Killinger is no stranger to this committee, Mr. Chairman. He served as Director of Governmental Affairs for the Pennsylvania Builders Association, and then he served for 3 years as the national coordinator for the training division of the National Association of Home Builders, now known as Home Builders Institute. He is an experienced political consultant and he worked here in Washington, DC. for a political consulting firm and coordinated several political campaigns for U.S. congressional candidates. So he is very wise in the ways of congressional politics and of legislation.

It shows, because during his tenure in New Orleans, his association's membership has doubled in 6 years, and we now have over 1,000 member firms in the New Orleans Association. So he has fought very hard for legislative and governmental projects, and he has also helped to fight against over-regulation and regulation that really is inhibiting to the industry.

So we are very well represented here today by two excellent members of our district and our State, and I know that whatever testimony they give is well founded from good experience and of longstanding interest in community affairs. I thank you very much for having them here, Mr. Chairman.

Chairman Gonzalez. Thank you very much, Mrs. Boggs. As I have said before, I am deeply grateful, and it is inspiring and very helpful to have you here.

Mr. Bartlett.

Mr. Bartlett. Thank you, Mr. Chairman. Mr. Chairman, I don't have any questions. I think the witnesses provided good testimony on a bad bill. This legislation, in fact, was a bad idea in 1983 when the House of Representatives adopted it by a slim 20-vote margin. No further consensus has developed that somehow the solution to persons who are under very difficult circumstances and for whatever reason unable to make mortgage payments is to insert a Federal program or Federal bureaucracy to make those mortgage payments for some 36 months. No further consensus in Congress or in the country has developed that is somehow a good idea.

It does seem to me if it were to be passed and signed into law, which is rather unlikely, given both the cost and other factors, that it could well have the effect of hurting the very people we try to help in that it would clearly discourage lenders from doing what they ought to be doing more of and are doing now to some extent, and that is negotiating forbearance with home buyers who are able to and likely to get back on their feet. If those home owners are not able to do so, well, then to have the Federal Government loan them an additional 36 months of mortgage payments only pushes them into a deeper hole.

I am in great sympathy, being from Texas, with the problem, but the solution of a new Federal program to loan more money to home buyers who are in difficult circumstances and unable to make mortgage payments without regard to how they got into the circumstances is frankly the opposite direction of what we ought to be doing.

If this committee chooses to act, I would hope what we would do would be something along the lines of a proposal that was made by my colleague from Ohio, Mr. Wylie, last time around in 1983, which had we adopted, we would be further ahead, and that is to instruct the supervisory agencies to do a better job and go further in instructing—in providing forbearance for single-family homes, single-family home owners, to allow the financial institutions to provide that kind of negotiated forbearance between a home buyer who has lost his or her job and is going to be back on his feet. Had we adopted that approach in 1983, it would have been passed and signed into law, and hundreds and thousands of home owners would in fact have been helped by that.

If this committee chooses to proceed, I would hope that would be the approach we would take, because, frankly, no other approach is possible to be enacted this year, and so it just simply becomes a political game if we choose some other approach.

Second, if we set up a new Federal bureaucracy, in the end we would end up while providing money to some group of people, we would end up discouraging those forbearance negotiations from larger numbers of other groups of people. So I hope we don't proceed down this road, I hope we proceed down a road of having the regulatory institutions make a better, a greater recognition of the need for negotiations with home buyers who are trying to make their payments and allowing financial institutions and encouraging financial institutions to do so.

If any of you would like to respond to that, you can put that in the form of a question if you choose. But I did appreciate your testimony, and articulating what is a very difficult problem.

Mr. KILLINGER. Yes, Congressman. Thank you. I think we, too, would like to allow free markets to operate in this situation, and, you know, if they did, perhaps this legislation wouldn't be necessary. You know, those of us in Louisiana would have liked free markets to operate when oil was $40 a barrel and the Congress didn't have to pass a windfalls profit tax. Free markets didn't operate then. We don't believe they are operating now in New Orleans. We believe there has been red-lining. We believe that that is not the way to make a healthy real estate economy, by limiting capital. You are not going to restrict the use of capital with any kind of

sick company or sick industry and have it ever get back on its feet, and, you know, we don't believe these Federal supervisory agencies—I guess they don't know how to handle mortgages very well. That is our problem.

Mr. FERRAN. Also, when we are in a situation where the economy—when we are in a situation with an economy that has a few foreclosures in the marketplace, those foreclosures can normally be borne by the marketplace without diminution in value of the entire area. What is happening in our community is it is a little past there now, it is not a situation where a lender can work out a deal with a borrower. In many cases, they will not do it, and they just seem to benefit for some reason or another to take the property back and sell it at a loss. With as many foreclosures as we have, the market itself cannot absorb it and what we end up with, and what is nice about this bill is that it targets these economically distressed areas and, therefore, helps the structure of the whole financing markets in those areas by avoiding these properties from getting on the foreclosure rolls.

Mr. BARTLETT. If I could add a follow-up question. This activity in the sense of actually paying for the mortgages for individuals who are in difficult circumstances I believe would be a permitted activity under the community development block grant that the city of New Orleans could adopt. I wonder what the New Orleans City Council, Dallas or the other cities—have the cities considered such legislation? They receive large sums of money in block grant funds, actually adopting it in the city of New Orleans itself? Would you advocate the city of New Orleans use the money they are getting in block grant funds to achieve that?

Chairman GONZALEZ. Excuse me, I was going to ask the gentleman from Dallas to yield here, because he is asking you a question that is impossible for you to answer, because I think it should be said that this is not a permissible activity for CDBG funds.

Mr. BARTLETT. I assume the chairman is correct. In the committee we attempt to make community development a block grant, that is to say allow the cities to use it as they would, and sometimes both we and HUD fall short of that. Perhaps what this committee should achieve is to make this a permissible activity.

Chairman GONZALEZ. The gentleman can submit legislation, but it would be impossible to ask them to check with their city authorities, because it is not within the allowable activities.

Mrs. BOGGS. Mr. Chairman.

Chairman GONZALEZ. Yes.

Mrs. BOGGS. May I respond?

Chairman GONZALEZ. Absolutely. I wanted to interject——

Mrs. BOGGS. In the bill that we will be marking up in the full Appropriations Committee tomorrow that we have already marked up in subcommittee, we confronted a situation where again several programs were discontinued or had zero funding in the administration budget. Also, there were some programs that were not funded but added to the Community Development Block Grant Program. This activity was not one of them.

Also, the section 312 revolving loan fund monies were to go into the Community Development Block Grant Program to help fund it. Our committee has always felt that 312 revolving funds should be

used for other purposes, and we are distressed at the idea of its being more or less done away with and folded into the Community Development Block Grant Program. The Community Development Block Grant Program received less money and had more programs piled upon it.

UDAG had no money, was zero budgeted, and what the committee has done is to take $220,000 of the revolving fund of the 312 loan and put it into UDAG and left the other monies in the 312 revolving fund, which will cover the purposes of that fund for the coming fiscal year. Two-hundred and twentyfive million was all we could take out of section 312 in order to put it into UDAG, so there really is no opportunity for this type of program under CDBG, under the current budgetary constraints.

Chairman GONZALEZ. Thank you very much. That is very much to the point, and it is a fact, and I am willing, however, to be glad to, if any legislation is submitted, to provide for an authorization, an equal amount to what we are asking here, to provide communities to develop this type of program through that kind of a grant, that is fine.

But that doesn't happen because the same objections are raised to that. In fact, had it not been for the Congress, as you point out in your committee, the President's budget would have pretty much long ago have neutralized the CDBG Program and UDAG, which since 1981 has been targeted for elimination by the administration and the President's budget.

So I am again going to say we are deeply grateful to you, and this was a most valuable contribution. We are sincere, we are not submitting this because this is a late point in the second session of the 100th Congress, but because we feel that some things should be considered on an emergency basis. To me, the most important thing is to take action along the lines that will prevent homelessness. Some of us, in fact advocate it since the beginning and before there was any general awareness of the so-called homelessness program.

So we intend in good faith to push as hard and as far as we can, and even if we were to, I am told, we have an administration that would not lift a finger. In fact, in 1983, we had the Secretary of HUD as much as tell us that, that even if the Congress approved it under the Constitution he—the statement he gave us here was one that indicated he wouldn't.

So that is fine, but if our processes are still operating, we won't have to face that in 1989. So I believe in working now.

Mr. KILLINGER. Mr. Chairman, you bring up a very interesting point. It is one thing for someone to pose this legislation because of its fiscal impact, and perhaps we argue, and you would argue it is a positive fiscal impact, but forgetting that, if someone opposes it because of that, it is quite another thing to then not do anything about the problem.

Chairman GONZALEZ. That is right.

Mr. KILLINGER. It just fascinates us that these Federal agencies sit here and don't know the amount of property they have or don't have any place to deal with this, create an asset disposition facility or to trouble debt restructuring. It is like, I guess it is a small amount of their loans, and it is not a great loss.

It is one thing to oppose Congress spending money on something, I think it is quite another thing for the Congress very legitimately to talk about the management of Federal agencies.

Chairman GONZALEZ. Exactly. For example, in 1978, we passed the equivalent of a home mortgage assistance, known as TMAP, that still has yet to be implemented. Why? Well, there was a court case intervention, and HUD has not seen fit to do anything. On the mortgage assignment program, I don't know of a mortgage that HUD has—we had the statistics from Mrs. Caldwell, who is a professional staff member to the subcommittee who has gathered the statistics, indicates HUD isn't doing anything there either, and I think you said yourself that in New Orleans there wasn't any evidence HUD was doing anything on the assignment program.

Mr. KILLINGER. In their case, they don't get the cooperation from many of the lenders for the loans for the services, so it is the same thing.

Chairman GONZALEZ. That is the same thing.

So that you are right, we are not—somebody talked about—well, the financial institutions are not in charity, well, that is not what we are asking for. It is insulting to even consider it that way, because it is a question of whether our Congress in our day and time can manifest the same faith as the Congress in the harshest period of all, economically speaking, the Depression.

But I said earlier the 1983 version of this same bill was patterned on research that I and some of the staff did, but particularly I, because I remembered HOLC. I am old enough where I can remember. And we did some digging and we tried to structure it.

The only thing I see is that to what extent are you helping with the interest rates we are asking on repayment? But then we are not going to even get it out of the subcommittee and especially in 1983, but even with that, yes, we passed it out on a strictly partisan vote, but it passed out of the House, and it is the only bill of that nature that has been passed by the House since the advent of the Reagan administration.

Chairman GONZALEZ. So that ought to give you an indication that, yes, there is still —and we have had changes in the composition of the House since 1983, for the better. So I think that we heard Miss Pelosi, for instance, who was one of our freshman members, and she has certainly demonstrated her approval, at least the thrust and spirit of the legislation, so with their help, we are going to push as hard as we know how and again, I thank you.

Ms. Pelosi, do you have a statement you wish to make?

Ms. PELOSI. Just briefly, Mr. Chairman. Thank you.

I would like to endorse your comments in terms of the testimony of our witnesses. Of course, it is always a pleasure and a learning experience when our colleague from Louisiana is there and characterizing and placing in context the testimony of our witnesses. I appreciate their testimony.

I would also like to say that, as you have indicated in the absence of a Federal housing policy, and also as Congresswoman Boggs has indicated, there is a reduction in community block grants which is underway. Hopefully a new administration will reverse that trend. I hate to see these needs in competition with other needs for limited resources.

If we deem this a necessary and worthy expenditure, I would like to see us pursue your bill, rather than put it in competition. I can see what happens next. It is all there and it gets reduced more and we are all competing for the same dollar and how should we take on the problem of homelessness, by meeting the emergency needs of people in the street or by keeping people in their homes.

I hope we can avoid that strategy in our planning of our policy. It is interesting to see our minority so staggered when asked about the size of the problem and they hear $2 billion. That is a lot of money. We try to speak in terms of targeting down to a lower amount. But it doesn't seem to occur to them that the dollar amount is the size of the problem.

Rather than saying we can't do that, it is too much, they should understand and gain knowledge from our witnesses. It is a staggering problem and it needs a specific solution. That is why I was particularly pleased with the specificity with which Mr. Killinger and Mr. Ferran addressed the problem. Thank you, Mr. Chairman, for holding these hearings.

[The prepared statement of Ms. Pelosi can be found in the appendix.]

Chairman GONZALEZ. Thank you very much. Thank you, again, Mrs. Boggs and gentleman.

The subcommittee, unless either one of you has some additional statements you wish to make for the record.

Mr. FERRAN. I would like to thank you for the opportunity to speak here today.

Chairman GONZALEZ. Thank you. The subcommittee will stand in recess until further call of the chair.

[Whereupon, at 12:20 p.m., the subcommittee was adjourned subject to the call of the Chair.]

APPENDIX

May 24, 1988

MY ADVICE TO THE PRIVILEGED ORDERS

The SPEAKER pro tempore (Mr. TORRES). Under a previous order of the House, the gentleman from Texas [Mr. GONZALEZ] is recognized for 60 minutes.

Mr. GONZALEZ. Mr. Speaker, it is said in the Scriptures that the bird has his nest, the fox has his hole, but the son of man has no place to rest his head.

In America today unfortunately what we had feared on December 4, 1982, when the Subcommittee on Housing and Community Development that I have the honor of chairing had the first hearing and, thereby, the first national attention to what was then an unperceived, though to us growing menacing problem of homelessness, the most disturbing feature having been for a few months before that in 1982 of the nature of homelessness the like of which I for one had not seen since the Depression era.

America had become accustomed to considering what we used to call the hobo, the ne'er-do-well, the unfortunate alcoholic, roaming our streets and countrysides wandering homeless, rootless, but the new nature that was most aggravating and most disturbing to me even as early as the summer of 1982 was the case of a father and mother with a 2-year old living in an automobile in a public park area in my hometown, because they simply had no place to go or live. I thought, well, this is an ad hoc situation, yes, they did have a very pathetic story to tell. Nevertheless, it seemed that even then under those circumstances it was impossible to conceive of an American family living that way.

I intervened and found it difficult even on an emergency basis to get that family temporary emergency housing with the housing authority. Then as we went into the autumn here in the District of Columbia, I received letters and phone calls from some private church supported facilities that were inquiring as to what, if any, Federal program existed, and being that I was chairman of this Housing Subcommittee, the calls were referred to me. They had called the Department of Housing and Urban Development, but could not find any one place to get results, which illustrates what I have said all along, and that is that that is the reason why the Constitution provides for this office, that we are attempting to discharge an office that has been shaped to be as close and as accessible to the people as it is humanly possible to devise.

The rest is history. It was the December 4, 1982, hearing, for instance, that first brought forth such later nationally established personalities as Mitch Snyder, and it also gave impulse to our efforts, up to then by letter, to convince GSA, the General Services Administration, to allow the use of the old Federal City College facility.

In any event, the rest is history. Just 1 year and 2 months ago, we had almost everybody in the leadership position in the so-called Emergency Homeless Assistance Act joining, but just that year, last year, was the first year that the President sent a budgetary request that recognized that problem by inserting a $100-million provision which he had steadfastly fought us for 3 years in a row. As difficult as it has been, the most unfortunate thing is that it has developed into a national disgrace. We have literally our fellow Americans, too many, rootless, wandering our land, homeless, and in effect refugees in their own home land.

The causes we have been speaking about ad nauseam for years. The purpose of my address today, which I feel will be succinct, is to report that I have introduced H.R. 4292, the Emergency Home Ownership Assistance Act. I have reformed it a little, perfected it from the 1983 version, which this House of Representatives approved and, incidentally, it is the only so-called new program that under the Reagan administration has been approved by the House of Representatives. Unfortunately in May 1983, it went over to the Senate where it languished and died, not even a hearing, not even one Senator asking questions.

I might point out also by way of parentheses, that the U.S. Senate until last year, since 1981, never even so much as called 1 half-hour of hearings on any housing matter, so that in working with our conferees within the context of the Congress, we finally did last year manage to produce the first freestanding authorization or reauthorization bill on housing and community development which, in effect, is a sort of a standby.

The Emergency Home Owners' Assistance Act of 1983 was motivated because of the hearings that I referred to in December 1982, and the subsequent incremental increases reported to us in homelessness of this nature, that is, where families, children, mothers, not single males, but families were homeless.

The cities in the Sun Belt and in the temperate zones of the west coast were beginning to report problems with "homelessness."

I feel that it is fine to give emergency attention to a problem that is assailing us, but if we do not address the cause of the problem, the factors that are motivating and creating homelessness, of what avail is it that we tread water in an endless renewal and extension of homelessness assistance programs?

This bill today is what I consider to be the preventive. We have estimated

that had it been accepted, as modest as it was, in 1983, we would have at least 10 percent prior homeowners now homeless not homeless. We had targeted not less than 100,000 home-owning American families to have been assisted if that act had been placed into law.

Today I want to point out that over the last 20 years, through public policy, the Congress has solved many of the consequences of what the economists call cyclical problems or periods related to housing.

Housing does not stand alone as we constantly have to remind colleagues and witnesses. If we speak of housing, we have to talk about streets, drainage, sewage, water facilities, known by the very highfallutin term of infrastructure, as I have been reporting because the title of the subcommittee that I chair is Housing and Community Development, and I have been into 33 States, into every single rural area where there is any kind of migratory or rural labor or housing situation, and I have been into every single dense urban area in this country from New York to Florida, from Minnesota to Alabama, Texas, the Midwest, California. I can tell you there is no question about it, we have a serious housing crisis on our hands and one that is growing. It cannot help but grow.

Up to now, we had had a different environment under which all of these corollary activities involved in what we call housing were operative, including the financial institutional framework of reference, the savings and loan.

There is no such thing. They have all been made banks since 1982. Our financial institutions from credit unions to banks themselves are now homogenized, and we have as yet not found a substitute. Must we if we are ever going to resume production of affordable housing available to the average family.

At this point about 6 percent of American families are able to purchase a brand new single-family dwelling unit. Through these years in the last 20 years, we have created what is known as a secondary mortgage institution activity, known as various entities such as the Government National Mortgage Association, Ginnie Mae, the Federal National Mortgage Association, Fannie Mae, and the Federal Home Loan Mortgage Corporation, Freddie Mac. There were structured to make available allocations of credit or availability of credit for housing funds during periods of tight money or of credit restraints.

However, as I often again have to remind these very institutional officials, those are known as secondary mortgages. Secondary implies there is a primary, but if the primary is sick, how can a secondary be well, meaning available?

In sum, while we have been able to address the critical problem of mortgage capital for homeowners in an indirect way through the secondary mortgage institution facilities, Congress up to now has not dealt with the equally serious regional as well as cyclical problem of delinquencies and foreclosures due to the economic circumstances which eventually lead to families losing their homes.

□ 1330

When these families lose their homes, they lose all. Homeownership represents achievement as well as stability and a sense of control over one's life. No government should stand by, as I have said in vain for 7 years, without offering help to thousands of citizens who are losing their homes and their savings as well as pride and hope and, above all, family stability; not because they have been careless, not because they have been foolish, but only, and only because they have been caught up in an economic cycle over which they have no control.

Therefore, I am reintroducing this legislation somewhat spruced up and perfected because there is no such thing as any perfect bill being written at one given time.

I believe it is urgently needed today and maybe more today than in 1983. It is similar, as I said, to the one in 1983, but I think improved. And, if accepted—and I almost feel certain this time we are going to have luck, because I have even had the private sector, the mortgage banking institutions, at least a segment of them, indicating that they had made a mistake when they opposed us in 1983. Of course, I could understand then, because it was a different environment under which that mortgage and mortgage banker was operating as compared to today. They could very well have been cavalier in saying, "We will be reluctant to foreclose, we will forebear."

But for 1½ years, no matter how much they wanted to, they simply cannot.

Now a good chunk or segment of that financial community is in touch with me saying that they are certainly sympathetic. It looks to me as if we will have some support that we did not have in 1983.

I am offering for the record a summary, in summary form, the clauses contained in this act known as H.R. 4292; also a table showing the 60-day default statistics by Federal Home Loan Bank districts as of last year. However, the most up-to-date account by the mortgage tabulators as of March 18, that is this month, indicates that the problem continues to be deepening and getting more serious insofar as foreclosures are concerned.

I am not talking about delinquencies, I am talking about foreclosures.

So that at this point I will place a summary of emergency housing assistance, the table of 60-day default statistics and a copy of H.R. 4292.

The documents referred to are as follows:

SUMMARY OF EMERGENCY HOUSING ASSISTANCE ACT OF 1988

A. EMERGENCY MORTGAGE RELIEF

The Emergency Housing Assistance Act of 1988 would provide temporary financial assistance for homeowners of non-FHA insured single-family homes who are faced with the threat of foreclosure due to involuntary unemployment or substantial loss of income. The primary features of the program would be:

Mandatory Activation

Would require HUD to institute the program when the average default rate, over a 3-month period, as measured by the Federal Home Loan Bank Board (FHLBB) 60-day default series, by Federal Home Loan Bank Board District rises to 2.0 percent of mortgage funds represented by the series and to suspend the program when the default rate drops to an average of 1.9 percent over a 3-month period. Would require that the Secretary notify financial institutions when the program is activated.

Qualifications for Assistance

Property secured by the mortgage is the primary residence of the homeowner and is a one-to four-family residence, a cooperative or condominium unit, or a manufactured home and lot on which the home is situated;

The mortgage payments are 90 days delinquent or the homeowner has been notified that the lender intends to foreclose; homeowners in foreclosure may also apply;

The original mortgage amount does not exceed the maximum mortgage amount that could be insured by FHA; the maximum ranges from $67,500 to $101,250;

The homeowner has suffered a substantial loss of income due to a loss or reduction in his or her employment, his or her self-employment, or returns from the pursuit of his or her occupation, or any similar loss or reduction by any person contributing to the income of such mortgagor.

Assistance Payments

Would cover the difference between what the homeowner is capable of paying and the total amount actually needed to cover principal, interest, taxes, assessments, ground rents, hazard insurance, and mortgage insurance, but in all cases the homeowner would have to contribute 38 percent of monthly net effective income;

Would include an amount necessary to make mortgage payments current to the date assistance is awarded;

May be provided to 18 months plus any period of default and may be extended for an additional 18 months if the Secretary determines it is necessary to avoid foreclosure;

Must be secured by a lien on the property and shall be repaid upon terms established by the Secretary except that any interest rate charged on the repayments shall be either the rate determined by the Secretary of Treasury taking into consideration the average interest rate on all interest bearing obligations of the United States then forming a part of the public debt or 8.5 percent, whichever is less; Secretary may establish, with consent of mortgagor, incentives for early repayment of loan including forgiveness of part of interest charges on loan.

Must be repaid at an amount that ensures that monthly repayment and total monthly housing expense does not exceed 38 percent of monthly net effective income of homeowner.

Authorization

$500 million is authorized for a revolving loan fund.

60-Day default statistics by Federal Home Loan Bank Districts

[Rate as of September 1987]

Federal Home Loan Bank of:	
Boston; Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont	0.87
New York; New Jersey, New York, Puerto Rico, and Virgin Islands	1.86
Pittsburgh; Delaware, Pennsylvania, and West Virginia	1.87
Atlanta; Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, and Virginia	1.64
Cincinnati; Kentucky, Ohio, and Tennessee	2.33
Indianapolis; Indiana and Michigan	1.28
Chicago; Illinois and Wisconsin	1.86
Des Moines; Iowa, Minnesota, Missouri, North Dakota, and South Dakota	2.29
Dallas; Arkansas, Louisiana, Mississippi, New Mexico, and Texas	6.45
Topeka; Colorado, Kansas, Nebraska, and Oklahoma	3.23
San Francisco; Arizona, Nevada, and California	1.62
Seattle; Alaska, Hawaii and Guam, Idaho, Montana, Oregon, Utah, Washington, and Wyoming	2.02

Trigger in emergency bill is 2.0.

H.R. 4292

Be it enacted by the Senate and House of Representative of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Emergency Housing Assistance Act of 1988".

SEC. 2. FINDINGS AND PURPOSE.

(a) FINDINGS.—The Congress finds that—

(1) the uncertain economic conditions that have existed in various parts of the Nation during the past several years have contributed to a continuing high rate of delinquencies and foreclosures;

(2) many homeowners are suffering from the impact of the economic downturn in their regions and are struggling to meet their mortgage obligations; and

(3) many such homeowners could retain their homes if they received temporary financial assistance until economic conditions improve.

(b) PURPOSE.—It is the purpose of this Act to establish a program that will preserve and promote forbearance with respect to mortgages and, through emergency mortgage relief payments, prevent widespread mortgage foreclosures and distress sales of homes resulting from the temporary loss of employment and income.

SEC. 3. DEFINITIONS.

For purposes of this Act:

(1) DISTRICT.—The term "district" means any Federal Home Loan Bank district established by the Federal Home Loan Bank Board under section 3 of the Federal Home Loan Bank Act.

(2) FEDERAL SUPERVISORY AGENCY.—The term "Federal supervisory agency" means the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration.

(3) FUND.—The term "Fund" means the Homeowners Emergency Relief Fund established in section 9.

(4) MONTHLY NET EFFECTIVE INCOME.—The term "monthly net effective income" means the monthly gross income of a mortgagor, less any Federal, State, or local income or employment taxes due with respect to such income.

(5) MORTGAGE.—The term "mortgage" includes a land contract or other instrument providing for the sale and purchase of property referred to in section 8(a)(1), and the terms "mortgagor" and "mortgagee" include the parties to the agreement of sale and purchase.

(6) SECRETARY.—The term "Secretary" means the Secretary of Housing and Urban Development.

(7) STATE.—The term "State means each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.

(8) TOTAL MONTHLY HOUSING EXPENSE.—The term "total monthly housing expense" means the sum of—

(A) the monthly payment of principal, interest, taxes, assessments, ground rents, hazard insurance, and mortgage insurance premiums due by a mortgagor with respect to a property assisted under this Act;

(B) the reasonable monthly maintenance costs of the mortgagor with respect to the property; and

(C) the reasonable monthly utility costs of the mortgagor with respect to the property.

SEC. 4. EFFECTIVE MORTGAGE DELINQUENCY RATE.

(a) AVAILABILITY OF ASSISTANCE.—

(1) GENERAL AUTHORITY.—The Secretary of Housing and Urban Development shall, to the extent approved in appropriation Acts, carry out the program established in this Act.

(2) CONDITIONS REQUIRING IMPLEMENTATION.—For purposes of carrying out the program established in this Act, the Secretary shall contract to make, and make, assistance available under this Act in any district when, on an average monthly basis for a period of 3 consecutive months for the district, the amount of funds represented by mortgage loans and contracts that are accounted for in the 1- to 4-family permanent mortgage delinquency series maintained by the Federal Home Loan Bank Board, and for which payments have been delinquent for 60 days or more, exceeds 2.0 percent of all funds represented by mortgage loans and contracts accounted for in the series.

(3) MONTHS CONSIDERED.—For purposes of determining when assistance is to be made available pursuant to paragraph (2), the Secretary shall take into account all months beginning with or after the third month before the month in which this Act is enacted.

(4) INITIAL ASSISTANCE.—With respect to the initial occurrence, after the date of the enactment of this Act, of the delinquency rate condition described in paragraph (2), the Secretary shall begin to contract to make, and make assistance available at the beginning of the first month after the month in which the mortgage delinquency series referred to in such paragraph indicates that the condition has occurred.

(5) AVAILABILITY OF DATA.—The mortgage delinquency series referred to in paragraph (2) shall be made available by the federal Home Loan Bank Board to the Secretary and the Congress on a monthly basis and shall contain data on the mortgage delinquency rate during the previous month for each district.

(b) TERMINATION OF ASSISTANCE.—

(1) IN GENERAL.—Once assistance is made available under this Act in any district, the Secretary shall continue to contract to make, and make, the assistance available until the date on which the mortgage delinquency series referred to in subsection (a)(2) indicates that the amount of funds represented by 60-day delinquent mortgage loans and contracts accounted for in the series has declined, on an average monthly basis for a period of 3 consecutive months for the district, to below 1.9 percent of all funds represented by mortgage loans and contracts accounted for in the series, except that—

(A) the assistance shall continue to be made available pursuant to contracts entered into before such date; and

(B) the Secretary shall reinstitute the program established in this Act in the district whenever the delinquency rate condition described in subsection (a)(2) reoccurs.

(2) REINSTITUTION AFTER TERMINATION.—In any case in which the program is reinstituted in any district, the Secretary shall begin to contract to make, and make, assistance available beginning with the date after the date on which the mortgage delinquency series indicates that the delinquency rate condition has reoccurred.

(c) NOTIFICATION OF MORTGAGEES.—The Secretary shall promptly notify each financial institution or other mortgagee holding a mortgage on property in any district in which the Secretary had determined to institute or reinstitute the program of assistance established in this Act.

SEC. 5. ELIGIBILITY FOR ASSISTANCE.

(a) ELIGIBILITY CONDITIONS.—Assistance may be made with respect to a mortgage under this Act only under the following terms and conditions:

(1) ELIGIBLE PROPERTIES.—The property securing the mortgage (or other security interest in the case of units in cooperative or condominium projects, or in the case of any manufactured home and the lot on which the home is situated) is a one- to four-family residence (including one-family units in a condominium project, a membership interest and occupancy agreement in a cooperative housing project, and any manufactured home and the lot on which the home is situated) and is the principal residence of the mortgagor involved.

(2) IMPENDING FORECLOSURE.—Either—

(A) the mortgagee involved has indicated to the mortgagor its intention to foreclose; or

(B) payments under the mortgage have been delinquent for at least 90 days.

(3) EXCLUSION OF FEDERALLY INSURED OR ASSISTED HOUSING.—The mortgage is not insured under the National Housing Act or assisted under title V of the Housing Act of 1949.

(4) INVOLUNTARY REDUCTION IN INCOME.—The mortgagor has incurred a substantial reduction in income as a result of—

(A) an involuntary loss of, or reduction in—

(i) his or her employment, other than as a result of any willful repeated or felonious misconduct by the mortgagor;

(ii) his or her self-employment, other than as a result of a willful repeated or felonious misconduct by the mortgagor; or

(iii) returns from the pursuit of his or her occupation, other than as a result of any willful repeated or felonious misconduct by the mortgagor; or

(B) any similar loss or reduction by any person contributing to the income of the mortgagor; which reduction in income renders the mortgagor unable to correct a mortgage delinquency within a reasonable time or to resume full mortgage payments.

(5) INCOME LIMITATION.—The aggregate annual income of the mortgagor and the members of the family of the mortgagor residing with the mortgagor, for the 12-month period preceding the date of the application of the mortgagor for assistance under this

Act, does not exceed whichever of the following is higher:

(A) AREA MEDIAN INCOME.—The median income for a family of 4 persons in the metropolitan statistical area involved.

(B) NATIONAL MEDIAN INCOME.—The national median income for a family of 4 persons.

(6) ESTABLISHMENT OF PAYMENT PLAN WITH MORTGAGEE.—The Secretary has determined that the mortgagor, if contacted by the mortgagor, has cooperated with the mortgagee in attempting to establish a reasonable plan for the making of partial payments of the amounts due under the mortgage or, considering the financial circumstances of the mortgagor, any other reasonable plan to correct the mortgage delinquency of the mortgagor without financial assistance under this Act.

(7) PROSPECT OF RESUMPTION OF FULL MORTGAGE PAYMENTS.—The Secretary had determined that payments under this Act are necessary to avoid foreclosure and that there is a reasonable prospect that the mortgagor will be able to—

(A) resume full mortgage payments within 36 months after the beginning of the period for which payments under this Act are provided or upon termination of assistance under this Act; and

(B) make the payments under the mortgage in full by its maturity date or by a later date agreed to by the mortgagor and mortgagee.

(8) PRINCIPAL OBLIGATION OF MORTGAGE.—

(A) MAXIMUM ORIGINAL PRINCIPAL OBLIGATION.—An amount equal to the original principal obligation of the mortgage does not exceed the principal amount that could be insured, at the time the morgagor applies for assistance under this Act, with respect to the property of the mortgagor under section 203(b) of the National Housing Act (or under section 203(n) or 234(c) of such Act with respect to a unit in a cooperative housing project or condominium project, respectively).

(B) CURRENT PRINCIPAL OBLIGATION.—A mortgagor may not be determined to be ineligible for assistance under this Act on the basis of the relationship between the fair market value of the home and the outstanding principal obligation of the mortgage.

(b) ELIGIBILITY LIMITATION.—Upon a determination that the conditions of eligibility in subsection (a) have been met by a mortgagor, the mortgagor shall become eligible for the assistance described in section 7, to the extent amounts are available under section 9 for the assistance.

SEC. 6. APPLICATION FOR ASSISTANCE.

(a) SUBMISSION OF APPLICATION.—During any period in which the program established in this Act is in effect in any district, each financial institution or other mortgagee shall, not less than 30 days prior to instituting any foreclosure proceeding with respect to any property described in paragraphs (1), (3), and (8) of section 5(a), assist the mortgagor involved in the preparation and submission to the Secretary of an application for assistance under this Act. The application shall not be required if the mortgagor executed a waiver of assistance under this Act after full disclosure of his or her possible eligibility.

(b) POSTPONEMENT OF FORECLOSURE PROCEEDINGS.—If any mortgagor submits an application for assistance under subsection (a), the financial institution or other mortgagee involved may not institute foreclosure proceedings with respect to the mortgagor prior to the receipt of notification from the Secretary under section 7(g) with respect to approval or disapproval of the application for assistance.

(c) STAY OF FORECLOSURE PROCEEDINGS.—A mortgagor may submit an application for assistance after foreclosure proceedings have been instituted, in which event the proceedings shall be automatically stayed until receipt of notification from the Secretary under section 7(g).

(d) PROOF OF COMPLIANCE.—In States that require judicial approval of foreclosure, compliance with this section shall be pleaded and proved as a precondition to foreclosure of any mortgage eligible for assistance under section 5. In all States, failure to comply with the provisions of this section shall be the basis of an action to enjoin a foreclosure. Proof of the refusal of the mortgagor involved either to submit an application or to execute a waiver under this section shall satisfy the burden of proof established in this subsection.

SEC. 7. ASSISTANCE PAYMENTS.

(a) FORM OF ASSISTANCE.—Assistance under this Act shall be provided in the form of emergency mortgage relief payments made by the Secretary to mortgagees on behalf of mortgagors. The payments shall be made using amounts available in the Homeowners Emergency Relief Fund.

(b) AMOUNT OF ASSISTANCE.—

(1) IN GENERAL.—Payments with respect to any mortgage under this Act shall be in an amount that, together with the contribution of the mortgagor involved, is equal to the amount of the principal, interest, taxes, assessments, ground rents, hazard insurance, expenses of the mortgagee involved in connection with payments or repayments under this Act, and mortgage insurance premiums due under the mortgage, and the initial payment shall include an amount necessary to make the payments on the mortgage current.

(2) MAXIMUM AMOUNT.—Payments under this Act shall not exceed amounts that the Secretary determines to be necessary to supplement the amounts, if any, that the mortgagor involved is capable of contributing toward the mortgage payments.

(3) MINIMUM AMOUNT.—Payments on behalf of any mortgagor under this Act shall not be less than the amount required to ensure that the total monthly housing expense of the mortgagor does not exceed 38 percent of the monthly net effective income of the mortgagor.

(c) DURATION OF ASSISTANCE.—

(1) IN GENERAL.—Payments under this Act may be provided for a period of not to exceed 18 months plus any period of delinquency.

(2) EXTENSION.—The period shall be extended for a period not to exceed 18 months if the Secretary has determined that the extension is necessary to avoid foreclosure.

(3) CHANGE IN FINANCIAL CIRCUMSTANCES.—

(A) REVIEW PROCEDURES.—The Secretary shall establish procedures for—

(i) each mortgagor, on whose behalf payments are made under this Act, to inform the Secretary of any significant increase or decrease in income; and

(ii) periodic review, to be conducted not less then once annually, of the financial circumstances of the mortgagor of the purpose of determining the necessity for continuation, termination, or adjustment in the amount of the payments.

(B) DISCONTINUATION OF PAYMENTS.—The payments shall be discontinued at any time if the Secretary determines that, because of changes in the financial circumstances of the mortgagor, the payments are no longer necessary to avoid foreclosure.

(d) TERMS OF ASSISTANCE.—

(1) SECURITY.—All payments under this Act shall be secured by a lien on the property involved and by such other obligation as the Secretary may require. The lien shall be subordinate to all mortgages existing on the property on the date on which the initial assistance payment is made under this Act on behalf of the mortgagor involved.

(2) REPAYMENT.—

(A) IN GENERAL.—Payments under this Act shall be repayable upon terms and conditions prescribed by the Secretary, and the terms and conditions may include requirements for repayment of any amount paid by the Secretary toward the expenses of a mortgagee in connection with the payment or repayments made under this Act.

(B) INTEREST.—

(i) RATE.—The Secretary may establish interest charges on payments made under this Act, except that the interest charges on the payments made on behalf of any mortgagor shall be set at a single rate that does not exceed whichever of the following rates is less:

(I) 8.5 PERCENT.—8.5 percent.

(II) TREASURY BORROWING RATE.—A rate determined by the Secretary of the Treasury taking into consideration the average interest rate on all interest bearing obligations of the United States then forming a part of the public debt, computed at the end of the month preceding the month in which the initial payment is to be made on behalf of the mortgagor.

(ii) ACCRUAL.—The interest charges on any payments made on behalf of a mortgagor under this Act shall not begin to accrue until termination of the payments.

(iii) PREEMPTION OF STATE AND LOCAL LIMITS.—The interest charges shall be payable notwithstanding any provisions of any State constitution or law or local law that limits the rate of interest on loans or advance of credit.

(3) AMOUNT OF MONTHLY REPAYMENT.—

(A) GENERAL LIMIT.—The Secretary shall establish the monthly repayment to be made by any mortgagor under this Act at an amount necessary to ensure that the sum of the monthly repayment and the total monthly housing expense of the mortgagor does not exceed 38 percent of the monthly net effective income of the mortgagor.

(B) INCENTIVES FOR EARLY REPAYMENT.—The Secretary may, at the option of any mortgagor, establish appropriate incentives for early repayment of the amount owed to the Secretary under this Act, including forgiveness of part of the interest charged on the payments made on behalf of the mortgagor.

(C) REVIEW OF FINANCIAL CIRCUMSTANCES.—The Secretary shall establish procedures for—

(i) each mortgagor making repayments under this Act to inform the Secretary of any significant increase or decrease in income; and

(ii) periodic review, to be conducted not less than once annually, of the financial circumstances of the mortgagor for the purpose of determining the necessity for adjustment in the amount of the repayments.

(4) DEPOSIT OF RECEIPTS IN FUND.—All receipts from repayments made to the Secretary under this Act shall be deposited in the Homeowners Emergency Relief Fund established in section 9.

(e) AGGREGATE LIMITATION ON ASSISTANCE.—Payments by the Secretary under this Act may be made without regard to whether the Secretary has previously taken action under this Act on behalf of a mortgagor, except that payments may not be provided on behalf of a mortgagor under this Act for more than an aggregate of 36 months.

(f) COUNSELING ASSISTANCE.—The Secretary shall provide, in accordance with sec

tion 106(c) of the Housing and Urban Development Act of 1968, homeownership counseling to mortgagors on whose behalf payments are made under this Act.

(g) PROCESSING OF APPLICATIONS.—The Secretary shall process applications for assistance under this Act in as expeditious a manner as is practicable. In carrying out this Act, the Secretary shall provide that, within not more than 45 calendar days from the receipt of an application for assistance under this Act, the mortgagor and mortgagee involved will be notified by the Secretary of the determination of the Secretary to approve or disapprove the application for assistance.

(h) ALLOCATION OF ASSISTANCE.—

(1) IN GENERAL.—In providing assistance under this Act, the Secretary shall—

(A) seek to ensure a reasonable distribution of funds among districts in which the program established in this Act is in effect; and

(B) take into consideration the rates of residential mortgage foreclosure and unemployment in the units of general local government in which the properties involved are located and whether the units of general local government are eligible for assistance under section 119 of the Housing and Community Development Act of 1974, giving particular consideration to units of general local government that have rates of unemployment exceeding the national average or are eligible for assistance under such section 119.

(2) USE OF MOST RECENT DATA.—In carrying out the provisions of this subsection, the Secretary shall utilize the most recent information available from the Secretary of Labor with respect to rates of unemployment.

SEC. 8. AUTHORITY OF THE SECRETARY.

(a) REGULATIONS.—The Secretary may make rules and regulations that are consistent with the provisions of this Act and are necessary to carry out the provisions of this Act.

(b) ADDITIONAL AUTHORITY.—

(1) POWERS UPON DEFAULT.—In the performance of, and with respect to, the functions, powers, and duties vested in the Secretary by this Act, the Secretary shall—

(A) have the power, notwithstanding any other provision of law, whether before or after default, to provide by contract or otherwise for the extinguishment upon default of any redemption, equitable, legal, or other right, title in any mortgage, deed, trust, or other instrument held by or held on behalf of the Secretary under the provisions of this Act; and

(B) have the power to foreclose on any property or commence any action to protect or enforce any right conferred upon the Secretary be law, contract, or other agreement, and bid for and purchase at any foreclosure or other sale any property in connection with which assistance has been provided pursuant to this Act.

(2) MANAGEMENT AND DISPOSITION OF ACQUIRED PROPERTY.—In the event of any such acquisition, the Secretary may (notwithstanding any other provision of law relating to the acquisition, handling, or disposal of real property by the United States) complete, remodel and convert, dispose of, lease, and otherwise deal with, the property.

(c) COLLECTION OF CLAIMS.—Notwithstanding any other provision of law, the Secretary shall also have power to pursue to final collection by way of compromise or otherwise all claims acquired by the Secretary in connection with any security, subrogation, or other rights obtained by the Secretary in administering this Act. Any funds collected by the Secretary under this section shall be deposited in the Homeowners Emergency Relief Fund established in section 9.

SEC. 9. HOMEOWNERS EMERGENCY RELIEF FUND.

(a) ESTABLISHMENT.—There is established in the Treasury of the United States a revolving fund, to be known as the Homeowners Emergency Relief Fund.

(b) ASSETS.—The Fund shall consist of—

(1) any amount approved in appropriation Acts for purposes of carrying out this Act;

(2) any amount received by the Secretary as repayment for payments made under this Act;

(3) any amount collected by the Secretary under section 8; and

(4) any amount received by the Secretary under subsection (d).

(c) USE OF AMOUNTS.—The Fund shall, to the extent approved in appropriation Acts, be available to the Secretary for purposes of carrying out the provisions of this Act, including—

(1) the making of emergency mortgage relief payments to mortgagees on behalf of mortgagors under section 7; and

(2) the administrative expenses of the Secretary in carrying out the provisions of this Act.

(d) INVESTMENT OF EXCESS AMOUNTS.—Any amounts in the Fund determined by the Secretary to be in excess of the amounts currently required to carry out the provisions of this Act shall be invested by the Secretary in obligations of, or obligations guaranteed as to both principal and interest by, the United States or any agency of the United States.

SEC. 10. AUTHORIZATION OF APPROPRIATIONS; LIMITATION ON BUDGET AUTHORITY.

(a) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to carry out the provisions of this Act $500,000,000 for fiscal year 1988. Any amounts so appropriated shall be deposited in the Fund and shall remain available until expended.

(b) LIMITATION ON BUDGET AUTHORITY.—The aggregate amount of assistance made available over the duration of the contracts entered into under this Act may not exceed $500,000,000.

SEC. 11. ACTIONS BY FEDERAL SUPERVISORY AGENCIES.

(a) PROMOTION OF FORBEARANCE.—Each Federal supervisory agency, with respect to financial institutions subject to its jurisdiction, and the Secretary, with respect to other approved mortgagees, shall, not later than 14 days following the date of the enactment of this Act—

(1) communicate in writing with each such institution or mortgagee encouraging it to exercise forbearance (including the acceptance of partial payment), to the maximum extent possible, with respect to residential mortgage foreclosures;

(2) waive or relax limitations pertaining to the operations of such institutions or mortgagees with respect to mortgage delinquencies, to the extent the waiving or relaxing of the limitations is not inconsistent with laws relating to the safety and soundness of such institutions or mortgagees; and

(3) take such actions as may be necessary to ensure that each such institution or mortgagee complies with the requirements established in section 6.

(b) SPECIAL CONSIDERATION FOR INSTITUTIONS EXERCISING FORBEARANCE.—

(1) FEDERAL HOME LOAN BANKS.—In considering applications for advances, the Federal Home Loan Banks shall give special consideration to institutions that have exercised forbearance in residential mortgage foreclosures as a result of actions taken pursuant to this section.

(2) FEDERAL RESERVE BANKS.—In considering applications for advances or discounts, the Federal Reserve Banks shall give special consideration to depository institutions and other borrowers that have exercised forbearance in residential mortgage foreclosures as a result of actions taken pursuant to this section.

(3) NATIONAL CREDIT UNION ADMINISTRATION BOARD.—In considering applications for extensions of credit, the National Credit Union Administration Board, on behalf of the National Credit Union Central Liquidity Facility, shall give special consideration to members that have exercised forbearance in residential mortgage foreclosures as a result of actions taken pursuant to this section.

SEC. 12. REPORTS TO CONGRESS.

(a) DELINQUENCIES AND FORECLOSURES.—The Secretary shall submit annually to the Congress a report on—

(1) the current rate of delinquencies and foreclosures in the housing market areas of the Nation that should be of immediate concern if the purpose of this Act are to be achieved;

(2) the extent of, and prospect for continuance of, voluntary forbearance by mortgagees in such housing market areas;

(3) actions being taken by governmental agencies to encourage forbearance by mortgagees in such housing market areas;

(4) actions taken and actions likely to be taken with respect to making assistance under this Act available to alleviate hardships resulting from any serious rates of delinquencies and foreclosures; and

(5) the current default status and projected default trends with respect to mortgages covering multifamily properties, with special attention to mortgages insured under the various provisions of the National Housing Act and with recommendations on how the defaults and prospective defaults may be cured or avoided in a manner that, while giving weight to the financial interests of the United States, takes into full consideration the urgent needs of the many low- and moderate-income families that currently occupy the multifamily properties.

(b) ALTERNATIVE MORTGAGE DELINQUENCY SERIES.—

(1) STUDY.—The Secretary shall conduct a study to determine if a mortgage delinquency series other than the mortgage delinquency series referred to in section 4(a)(2) would be a more effective and efficient series to utilize in carrying out this Act.

(2) REPORT.—Within 1 year after the date of the enactment of this Act, the Secretary shall transmit to the Congress the findings and conclusions of the study along with any legislative recommendations concerning the program established in this Act.

SEC. 13. REPEAL OF EMERGENCY HOMEOWNERS' RELIEF ACT.

The Emergency Housing Act of 1975 is amended by striking title I.

The SPEAKER pro tempore (Mr. TORRES). Under a previous order of the House, the gentleman from California [Mr. DORNAN] is recognized for 60 minutes.

[Mr. DORNAN of California addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

I

100TH CONGRESS
2D SESSION

H. R. 4292

To require the Secretary of Housing and Urban Development to provide emergency mortgage assistance to homeowners.

IN THE HOUSE OF REPRESENTATIVES

MARCH 30, 1988

Mr. GONZALEZ introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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A BILL

To require the Secretary of Housing and Urban Development to provide emergency mortgage assistance to homeowners.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Emergency Housing Assistance Act of 1988".

SEC. 2. FINDINGS AND PURPOSE.

(a) FINDINGS.—The Congress finds that—

(1) the uncertain economic conditions that have existed in various parts of the Nation during the past

several years have contributed to a continuing high rate of delinquencies and foreclosures;

(2) many homeowners are suffering from the impact of the economic downturn in their regions and are struggling to meet their mortgage obligations; and

(3) many such homeowners could retain their homes if they received temporary financial assistance until economic conditions improve.

(b) PURPOSE.—It is the purpose of this Act to establish a program that will preserve and promote forbearance with respect to mortgages and, through emergency mortgage relief payments, prevent widespread mortgage foreclosures and distress sales of homes resulting from the temporary loss of employment and income.

SEC. 3. DEFINITIONS.

For purposes of this Act:

(1) DISTRICT.—The term "district" means any Federal Home Loan Bank district established by the Federal Home Loan Bank Board under section 3 of the Federal Home Loan Bank Act.

(2) FEDERAL SUPERVISORY AGENCY.—The term "Federal supervisory agency" means the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal

Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration.

(3) FUND.—The term "Fund" means the Homeowners Emergency Relief Fund established in section 9.

(4) MONTHLY NET EFFECTIVE INCOME.—The term "monthly net effective income" means the monthly gross income of a mortgagor, less any Federal, State, or local income or employment taxes due with respect to such income.

(5) MORTGAGE.—The term "mortgage" includes a land contract or other instrument providing for the sale and purchase of property referred to in section 5(a)(1), and the terms "mortgagor" and "mortgagee" include the parties to the agreement of sale and purchase.

(6) SECRETARY.—The term "Secretary" means the Secretary of Housing and Urban Development.

(7) STATE.—The term "State" means each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.

(8) TOTAL MONTHLY HOUSING EXPENSE.—The term "total monthly housing expense" means the sum of—

(A) the monthly payment of principal, interest, taxes, assessments, ground rents, hazard insurance, and mortgage insurance premiums due by a mortgagor with respect to a property assisted under this Act;

(B) the reasonable monthly maintenance costs of the mortgagor with respect to the property; and

(C) the reasonable monthly utility costs of the mortgagor with respect to the property.

SEC. 4. EFFECTIVE MORTGAGE DELINQUENCY RATE.

(a) AVAILABILITY OF ASSISTANCE.—

(1) GENERAL AUTHORITY.—The Secretary of Housing and Urban Development shall, to the extent approved in appropriation Acts, carry out the program established in this Act.

(2) CONDITIONS REQUIRING IMPLEMENTATION.—For purposes of carrying out the program established in this Act, the Secretary shall contract to make, and make, assistance available under this Act in any district when, on an average monthly basis for a period of 3 consecutive months for the district, the

amount of funds represented by mortgage loans and contracts that are accounted for in the 1- to 4-family permanent mortgage delinquency series maintained by the Federal Home Loan Bank Board, and for which payments have been delinquent for 60 days or more, exceeds 2.0 percent of all funds represented by mortgage loans and contracts accounted for in the series.

(3) MONTHS CONSIDERED.—For purposes of determining when assistance is to be made available pursuant to paragraph (2), the Secretary shall take into account all months beginning with or after the third month before the month in which this Act is enacted.

(4) INITIAL ASSISTANCE.—With respect to the initial occurrence, after the date of the enactment of this Act, of the delinquency rate condition described in paragraph (2), the Secretary shall begin to contract to make, and make, assistance available at the beginning of the first month after the month in which the mortgage delinquency series referred to in such paragraph indicates that the condition has occurred.

(5) AVAILABILITY OF DATA.—The mortgage delinquency series referred to in paragraph (2) shall be made available by the Federal Home Loan Bank Board to the Secretary and the Congress on a monthly basis and shall contain data on the mortgage delin-

quency rate during the previous month for each district.

(b) TERMINATION OF ASSISTANCE.—

(1) IN GENERAL.—Once assistance is made available under this Act in any district, the Secretary shall continue to contract to make, and make, the assistance available until the date on which the mortgage delinquency series referred to in subsection (a)(2) indicates that the amount of funds represented by 60-day delinquent mortgage loans and contracts accounted for in the series has declined, on an average monthly basis for a period of 3 consecutive months for the district, to below 1.9 percent of all funds represented by mortgage loans and contracts accounted for in the series, except that—

(A) the assistance shall continue to be made available pursuant to contracts entered into before such date; and

(B) the Secretary shall reinstitute the program established in this Act in the district whenever the delinquency rate condition described in subsection (a)(2) reoccurs.

(2) REINSTITUTION AFTER TERMINATION.—In any case in which the program is reinstituted in any district, the Secretary shall begin to contract to make,

and make, assistance available beginning with the date after the date on which the mortgage delinquency series indicates that the delinquency rate condition has reoccurred.

(c) NOTIFICATION OF MORTGAGEES.—The Secretary shall promptly notify each financial institution or other mortgagee holding a mortgage on property in any district in which the Secretary has determined to institute or reinstitute the program of assistance established in this Act.

SEC. 5. ELIGIBILITY FOR ASSISTANCE.

(a) ELIGIBILITY CONDITIONS.—Assistance may be made with respect to a mortgage under this Act only under the following terms and conditions:

(1) ELIGIBLE PROPERTIES.—The property securing the mortgage (or other security interest in the case of units in cooperative or condominium projects, or in the case of any manufactured home and the lot on which the home is situated) is a one- to four-family residence (including one-family units in a condominium project, a membership interest and occupancy agreement in a cooperative housing project, and any manufactured home and the lot on which the home is situated) and is the principal residence of the mortgagor involved.

(2) IMPENDING FORECLOSURE.—Either—

(A) the mortgagee involved has indicated to the mortgagor its intention to foreclose; or

(B) payments under the mortgage have been delinquent for at least 90 days.

(3) EXCLUSION OF FEDERALLY INSURED OR ASSISTED HOUSING.—The mortgage is not insured under the National Housing Act or assisted under title V of the Housing Act of 1949.

(4) INVOLUNTARY REDUCTION IN INCOME.—The mortgagor has incurred a substantial reduction in income as a result of—

(A) an involuntary loss of, or reduction in—

(i) his or her employment, other than as a result of any willful repeated or felonious misconduct by the mortgagor;

(ii) his or her self-employment, other than as a result of an willful repeated or felonious misconduct by the mortgagor; or

(iii) returns from the pursuit of his or her occupation, other than as a result of any willful repeated or felonious misconduct by the mortgagor; or

(B) any similar loss or reduction by any person contributing to the income of the mortgagor;

which reduction in income renders the mortgagor unable to correct a mortgage delinquency within a reasonable time or to resume full mortgage payments.

(5) INCOME LIMITATION.—The aggregate annual income of the mortgagor and the members of the family of the mortgagor residing with the mortgagor, for the 12-month period preceding the date of the application of the mortgagor for assistance under this Act, does not exceed whichever of the following is higher:

(A) AREA MEDIAN INCOME.—The median income for a family of 4 persons in the metropolitan statistical area involved.

(B) NATIONAL MEDIAN INCOME.—The national median income for a family of 4 persons.

(6) ESTABLISHMENT OF PAYMENT PLAN WITH MORTGAGEE.—The Secretary has determined that the mortgagor, if contacted by the mortgagor, has cooperated with the mortgagee in attempting to establish a reasonable plan for the making of partial payments of the amounts due under the mortgage or, considering the financial circumstances of the mortgagor, any other reasonable plan to correct the mortgage delinquency of the mortgagor without financial assistance under this Act.

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(7) PROSPECT OF RESUMPTION OF FULL MORTGAGE PAYMENTS.—The Secretary has determined that payments under this Act are necessary to avoid foreclosure and that there is a reasonable prospect that the mortgagor will be able to—

(A) resume full mortgage payments within 36 months after the beginning of the period for which payments under this Act are provided or upon termination of assistance under this Act; and

(B) make the payments under the mortgage in full by its maturity date or by a later date agreed to by the mortgagor and mortgagee.

(8) PRINCIPAL OBLIGATION OF MORTGAGE.—

(A) MAXIMUM ORIGINAL PRINCIPAL OBLIGATION.—An amount equal to the original principal obligation of the mortgage does not exceed the principal amount that could be insured, at the time the mortgagor applies for assistance under this Act, with respect to the property of the mortgagor under section 203(b) of the National Housing Act (or under section 203(n) or 234(c) of such Act with respect to a unit in a cooperative housing project or condominium project, respectively).

(B) CURRENT PRINCIPAL OBLIGATION.—A mortgagor may not be determined to be ineligible

for assistance under this Act on the basis of the relationship between the fair market value of the home and the outstanding principal obligation of the mortgage.

(b) ELIGIBILITY LIMITATION.—Upon a determination that the conditions of eligibility in subsection (a) have been met by a mortgagor, the mortgagor shall become eligible for the assistance described in section 7, to the extent amounts are available under section 9 for the assistance.

SEC. 6. APPLICATION FOR ASSISTANCE.

(a) SUBMISSION OF APPLICATION.—During any period in which the program established in this Act is in effect in any district, each financial institution or other mortgagee shall, not less than 30 days prior to instituting any foreclosure proceeding with respect to any property described in paragraphs (1), (3), and (8) of section 5(a), assist the mortgagor involved in the preparation and submission to the Secretary of an application for assistance under this Act. The application shall not be required if the mortgagor executes a waiver of assistance under this Act after full disclosure of his or her possible eligibility.

(b) POSTPONEMENT OF FORECLOSURE PROCEEDINGS.—If any mortgagor submits an application for assistance under subsection (a), the financial institution or other mortgagee involved may not institute foreclosure proceedings

with respect to the mortgagor prior to the receipt of notification from the Secretary under section 7(g) with respect to approval or disapproval of the application for assistance.

(c) STAY OF FORECLOSURE PROCEEDINGS.—A mortgagor may submit an application for assistance after foreclosure proceedings have been instituted, in which event the proceedings shall be automatically stayed until receipt of notification from the Secretary under section 7(g).

(d) PROOF OF COMPLIANCE.—In States that require judicial approval of foreclosure, compliance with this section shall be pleaded and proved as a precondition to foreclosure of any mortgage eligible for assistance under section 5. In all States, failure to comply with the provisions of this section shall be the basis of an action to enjoin a foreclosure. Proof of the refusal of the mortgagor involved either to submit an application or to execute a waiver under this section shall satisfy the burden of proof established in this subsection.

SEC. 7. ASSISTANCE PAYMENTS.

(a) FORM OF ASSISTANCE.—Assistance under this Act shall be provided in the form of emergency mortgage relief payments made by the Secretary to mortgagees on behalf of mortgagors. The payments shall be made using amounts available in the Homeowners Emergency Relief Fund.

(b) AMOUNT OF ASSISTANCE.—

(1) IN GENERAL.—Payments with respect to any mortgage under this Act shall be in an amount that, together with the contribution of the mortgagor involved, is equal to the amount of the principal, interest, taxes, assessments, ground rents, hazard insurance, expenses of the mortgagee involved in connection with payments or repayments under this Act, and mortgage insurance premiums due under the mortgage, and the initial payment shall include an amount necessary to make the payments on the mortgage current.

(2) MAXIMUM AMOUNT.—Payments under this Act shall not exceed amounts that the Secretary determines to be necessary to supplement the amounts, if any, that the mortgagor involved is capable of contributing toward the mortgage payments.

(3) MINIMUM AMOUNT.—Payments on behalf of any mortgagor under this Act shall not be less than the amount required to ensure that the total monthly housing expense of the mortgagor does not exceed 38 percent of the monthly net effective income of the mortgagor.

(c) DURATION OF ASSISTANCE.—

(1) IN GENERAL.—Payments under this Act may be provided for a period of not to exceed 18 months plus any period of delinquency.

(2) EXTENSION.—The period shall be extended for a period not to exceed 18 months if the Secretary has determined that the extension is necessary to avoid foreclosure.

(3) CHANGE IN FINANCIAL CIRCUMSTANCES.—

(A) REVIEW PROCEDURES.—The Secretary shall establish procedures for—

(i) each mortgagor, on whose behalf payments are made under this Act, to inform the Secretary of any significant increase or decrease in income; and

(ii) periodic review, to be conducted not less then once annually, of the financial circumstances of the mortgagor of the purpose of determining the necessity for continuation, termination, or adjustment in the amount of the payments.

(B) DISCONTINUATION OF PAYMENTS.—The payments shall be discontinued at any time if the Secretary determines that, because of changes in the financial circumstances of the mortgagor, the payments are no longer necessary to avoid foreclosure.

(d) TERMS OF ASSISTANCE.—

(1) SECURITY.—All payments under this Act shall be secured by a lien on the property involved and by such other obligation as the Secretary may require. The lien shall be subordinate to all mortgages existing on the property on the date on which the initial assistance payment is made under this Act on behalf of the mortgagor involved.

(2) REPAYMENT.—

(A) IN GENERAL.—Payments under this Act shall be repayable upon terms and conditions prescribed by the Secretary, and the terms and conditions may include requirements for repayment of any amount paid by the Secretary toward the expenses of a mortgagee in connection with the payment or repayments made under this Act.

(B) INTEREST.—

(i) RATE.—The Secretary may establish interest charges on payments made under this Act, except that the interest charge on the payments made on behalf of any mortgagor shall be set at a single rate that does not exceed whichever of the following rates is less:

(I) 8.5 PERCENT.—8.5 percent.

(II) TREASURY BORROWING RATE.—A rate determined by the Secretary of the Treasury taking into consideration the average interest rate on all interest bearing obligations of the United States then forming a part of the public debt, computed at the end of the month preceding the month in which the initial payment is to be made on behalf of the mortgagor.

(ii) ACCRUAL.—The interest charges on any payments made on behalf of a mortgagor under this Act shall not begin to accrue until termination of the payments.

(iii) PREEMPTION OF STATE AND LOCAL LIMITS.—The interest charges shall be payable notwithstanding any provision of any State constitution or law or local law that limits the rate of interest on loans or advance of credit.

(3) AMOUNT OF MONTHLY REPAYMENT.—

(A) GENERAL LIMIT.—The Secretary shall establish the monthly repayment to be made by any mortgagor under this Act at an amount necessary to ensure that the sum of the monthly re-

payment and the total monthly housing expense of the mortgagor does not exceed 38 percent of the monthly net effective income of the mortgagor.

(B) INCENTIVES FOR EARLY REPAYMENT.—The Secretary may, at the option of any mortgagor, establish appropriate incentives for early repayment of the amount owed to the Secretary under this Act, including forgiveness of part of the interest charged on the payments made on behalf of the mortgagor.

(C) REVIEW OF FINANCIAL CIRCUMSTANCES.—The Secretary shall establish procedures for—

(i) each mortgagor making repayments under this Act to inform the Secretary of any significant increase or decrease in income; and

(ii) periodic review, to be conducted not less than once annually, of the financial circumstances of the mortgagor for the purpose of determining the necessity for adjustment in the amount of the repayments.

(4) DEPOSIT OF RECEIPTS IN FUND.—All receipts from repayments made to the Secretary under

this Act shall be deposited in the Homeowners Emergency Relief Fund established in section 9.

(e) AGGREGATE LIMITATION ON ASSISTANCE.—Payments by the Secretary under this Act may be made without regard to whether the Secretary has previously taken action under this Act on behalf of a mortgagor, except that payments may not be provided on behalf of a mortgagor under this Act for more than an aggregate of 36 months.

(f) COUNSELING ASSISTANCE.—The Secretary shall provide, in accordance with section 106(c) of the Housing and Urban Development Act of 1968, homeownership counseling to mortgagors on whose behalf payments are made under this Act.

(g) PROCESSING OF APPLICATIONS.—The Secretary shall process applications for assistance under this Act in as expeditious a manner as is practicable. In carrying out this Act, the Secretary shall provide that, within not more than 45 calendar days from the receipt of an application for assistance under this Act, the mortgagor and mortgage involved will be notified by the Secretary of the determination of the Secretary to approve or disapprove the application for assistance.

(h) ALLOCATION OF ASSISTANCE.—

(1) IN GENERAL.—In providing assistance under this Act, the Secretary shall—

(A) seek to ensure a reasonable distribution of funds among districts in which the program established in this Act is in effect; and

(B) take into consideration the rates of residential mortgage foreclosure and unemployment in the units of general local government in which the properties involved are located and whether the units of general local government are eligible for assistance under section 119 of the Housing and Community Development Act of 1974, giving particular consideration to units of general local government that have rates of unemployment exceeding the national average or are eligible for assistance under such section 119.

(2) USE OF MOST RECENT DATA.—In carrying out the provisions of this subsection, the Secretary shall utilize the most recent information available from the Secretary of Labor with respect to rates of unemployment.

SEC. 8. AUTHORITY OF THE SECRETARY.

(a) REGULATIONS.—The Secretary may make rules and regulations that are consistent with the provisions of this Act and are necessary to carry out the provisions of this Act.

(b) ADDITIONAL AUTHORITY.—

(1) POWERS UPON DEFAULT.—In the performance of, and with respect to, the functions, powers, and duties vested in the Secretary by this Act, the Secretary shall—

(A) have the power, notwithstanding any other provision of law, whether before or after default, to provide by contract or otherwise for the extinguishment upon default of any redemption, equitable, legal, or other right, title in any mortgage, deed, trust, or other instrument held by or held on behalf of the Secretary under the provisions of this Act; and

(B) have the power to foreclose on any property or commence any action to protect or enforce any right conferred upon the Secretary by law, contract, or other agreement, and bid for and purchase at any foreclosure or other sale any property in connection with which assistance has been provided pursuant to this Act.

(2) MANAGEMENT AND DISPOSITION OF ACQUIRED PROPERTY.—In the event of any such acquisition, the Secretary may (notwithstanding any other provision of law relating to the acquisition, handling, or disposal of real property by the United States) com-

plete, remodel and convert, dispose of, lease, and otherwise deal with, the property.

(c) COLLECTION OF CLAIMS.—Notwithstanding any other provision of law, the Secretary shall also have power to pursue to final collection by way of compromise or otherwise all claims acquired by the Secretary in connection with any security, subrogation, or other rights obtained by the Secretary in administering this Act. Any funds collected by the Secretary under this section shall be deposited in the Homeowners Emergency Relief Fund established in section 9.

SEC. 9. HOMEOWNERS EMERGENCY RELIEF FUND.

(a) ESTABLISHMENT.—There is established in the Treasury of the United States a revolving fund, to be known as the Homeowners Emergency Relief Fund.

(b) ASSETS.—The Fund shall consist of—

(1) any amount approved in appropriation Acts for purposes of carrying out this Act;

(2) any amount received by the Secretary as repayment for payments made under this Act;

(3) any amount collected by the Secretary under section 8; and

(4) any amount received by the Secretary under subsection (d).

(c) USE OF AMOUNTS.—The Fund shall, to the extent approved in appropriation Acts, be available to the Secretary

for purposes of carrying out the provisions of this Act, including—

(1) the making of emergency mortgage relief payments to mortgagees on behalf of mortgagors under section 7; and

(2) the administrative expenses of the Secretary in carrying out the provisions of this Act.

(d) INVESTMENT OF EXCESS AMOUNTS.—Any amounts in the Fund determined by the Secretary to be in excess of the amounts currently required to carry out the provisions of this Act shall be invested by the Secretary in obligations of, or obligations guaranteed as to both principal and interest by, the United States or any agency of the United States.

SEC. 10. AUTHORIZATION OF APPROPRIATIONS; LIMITATION ON BUDGET AUTHORITY.

(a) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to carry out the provisions of this Act $500,000,000 for fiscal year 1989. Any amounts so appropriated shall be deposited in the Fund and shall remain available until expended.

(b) LIMITATION ON BUDGET AUTHORITY.—The aggregate amount of assistance made available over the duration of the contracts entered into under this Act may not exceed $500,000,000.

SEC. 11. ACTIONS BY FEDERAL SUPERVISORY AGENCIES.

(a) PROMOTION OF FORBEARANCE.—Each Federal supervisory agency, with respect to financial institutions subject to its jurisdiction, and the Secretary, with respect to other approved mortgagees, shall, not later than 14 days following the date of the enactment of this Act—

(1) communicate in writing with each such institution or mortgagee encouraging it to exercise forbearance (including the acceptance of partial payment), to the maximum extent possible, with respect to residential mortgage foreclosures;

(2) waive or relax limitations pertaining to the operations of such institutions or mortgagees with respect to mortgage delinquencies, to the extent the waiving or relaxing of the limitations is not inconsistent with laws relating to the safety and soundness of such institutions or mortgagees; and

(3) take such actions as may be necessary to ensure that each such institution or mortgagee complies with the requirements established in section 6.

(b) SPECIAL CONSIDERATION FOR INSTITUTIONS EXERCISING FORBEARANCE.—

(1) FEDERAL HOME LOAN BANKS.—In considering applications for advances, the Federal Home Loan Banks shall give special consideration to institutions that have exercised forbearance in residential mortgage

foreclosures as a result of actions taken pursuant to this section.

(2) FEDERAL RESERVE BANKS.—In considering applications for advances or discounts, the Federal Reserve Banks shall give special consideration to depository institutions and other borrowers that have exercised forbearance in residential mortgage foreclosures as a result of actions taken pursuant to this section.

(3) NATIONAL CREDIT UNION ADMINISTRATION BOARD.—In considering applications for extensions of credit, the National Credit Union Administration Board, on behalf of the National Credit Union Central Liquidity Facility, shall give special consideration to members that have exercised forbearance in residential mortgage foreclosures as a result of actions taken pursuant to this section.

SEC. 12. REPORTS TO CONGRESS.

(a) DELINQUENCIES AND FORECLOSURES.—The Secretary shall submit annually to the Congress a report on—

(1) the current rate of delinquencies and foreclosures in the housing market areas of the Nation that should be of immediate concern if the purposes of this Act are to be achieved;

(2) the extent of, and prospect for continuance of, voluntary forbearance by mortgagees in such housing market areas;

(3) actions being taken by governmental agencies to encourage forbearance by mortgagees in such housing market areas;

(4) actions taken and actions likely to be taken with respect to making assistance under this Act available to alleviate hardships resulting from any serious rates of delinquencies and foreclosures; and

(5) the current default status and projected default trends with respect to mortgages covering multifamily properties, with special attention to mortgages insured under the various provisions of the National Housing Act and with recommendations on how the defaults and prospective defaults may be cured or avoided in a manner that, while giving weight to the financial interests of the United States, takes into full consideration the urgent needs of the many low- and moderate-income families that currently occupy the multifamily properties.

(b) ALTERNATIVE MORTGAGE DELINQUENCY SERIES.—

(1) STUDY.—The Secretary shall conduct a study to determine if a mortgage delinquency series other

than the mortgage delinquency series referred to in section 4(a)(2) would be a more effective and efficient series to utilize in carrying out this Act.

(2) REPORT.—Within 1 year after the date of the enactment of this Act, the Secretary shall transmit to the Congress the findings and conclusions of the study along with any legislative recommendations concerning the program established in this Act.

SEC. 13. REPEAL OF EMERGENCY HOMEOWNERS' RELIEF ACT.

The Emergency Housing Act of 1975 is amended by striking title I.

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TO U.S. HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HENRY B. GONZALEZ, CHAIRMAN

PRESENTATION ON HOUSING OPPORTUNITIES, INC. HOPE PROGRAM AND HR4292 BY JAMES P BUTLER, PRESIDENT OF HOUSING OPPORTUNITIES, INC.

Thank you for providing us the opportunity to speak to your committee. I would like to express a very special thanks for your concern and action in developing HR4292. As the families have discussed the loss of job and potential loss of one's home is a traumatic experience that tears at the family structure and places great burdens on individuals and families It also hits hard the community as a whole. The tax base, the other neighborhood citizens that have invested in real estate and of course the lenders and mortgage insurers have lost millions of dollars Your committee understands the impact of these losses in both public and private funds. The problem is both a human and economic one of enormous proportions that is at, a crisis level.

Housing Opportunities is a not-for-profit corporation that has been dealing with this very crisis for more than six years. Housing Opportunities, Inc. is located in McKeesport, Pennsylvania, an old mill town, approximately 14 miles up the Monongahela River from downtown Pittsburgh. Our Monongahela River Valley produced most of the steel that made Pittsburgh famous for steel making and led the nation in producing steel for generations. As you know, the mills in early 1982 began to permanently shut down. Not a temporary closing; but a demolishing of the mills in our area, thus putting thousands of workers and their families out of work. These individuals in steel and other heavy industry are not simply out of a job, but out of a career. Unfortunately these individual's job skills do not match up well with the new service-sector jobs that are slowly, but surely replacing the jobs of our old heavy industries and energy communities. For these families, the dilemma forced them to exhaust their savings, borrow from friends and relatives. Once unemployment benefits were exhausted and no employment found, loss of home became imminent

Housing Opportunities has worked in the home ownership area since its inception in 1975. Our programs are built on a professional counselor working one-on-one with families and a close working relationship with local lenders In 1982, our staff, volunteers, local lenders and utility companies sat down in response to the home foreclosure and unemployment crisis in our area. We developed a program called Home Ownership Protective Effort, which we refer to as the HOPE Program.

We have been told that the program is unique in a number of ways. The results only three percent of the more than 1 000 fami ies that we have served in the last five years has lost their home This is a remarkable figure, when you consider. that to get into the HOPE Program a family must be delinquent in their mortgage due to unemployment or underemployment The fact of the matter is, on average the families in the HOPE Program have a gross family income that is insufficient to pay mortgage, food, and utilities Insufficient income to pay the survival expenses, let alone all the other obligations American families have. The program was found unique, not only because the results in reducing the number of foreclosures, but also on other facts.

The families in the HOPE Program, on average, begin making a l ttle more than a full mortgage payment a month, once they enter the program. The lenders feel, that considering the income of these families, that is a remarkable accomplishment. The reason that these families can accomplish this while still unemployed or underemployed, is due to the comprehensive nature of the HOPE Program. The housing counselor works one-on-one with the family until the family is ass sted back to reemployment and self-sufficiency. That is averaging a commitment of 15 months working with each family. The counselor works in prioritizing needs working on a budget with their limited income and negotiating with any and all creditors.

The agencies have assisted our HOPE families in securing more than one million dollars in aid. This greatly assists families to make, on average, more than a full mortgage payment a month back to the lenders. Making sure families utilize existing aid programs and developing our own "community resource wells". "Community resource wells" are developed by involving churches, individuals, and companies that adopt families and subsidize them, make contributions to our revolving loan fund, develop a food bank where we can subsidize a families' food expense therefore freeing up $100.00 or $200 00 a month for mortgage or utilities HOPE works with the family in assisting them to find reemployment, which is their bottom-line problem. Until that can be accomplished, the family will not be able to be self-sufficient

Housing Opportunities has developed a holistic approach to a very serious personal, community, and institutional dilemma.

Additional unique features of our HOPE Program is that the institutions with a vested interest in these unemployed families, namely the local lender the national mortgage insurers and mortgage investors, and the gas and electric companies, pay the counseling expenses to provide this service. This is unique that a social service agency has elevated its professional services to this level and the fact that we have been able to produce results more and more institutions are joining the program.

After operating our HOPE Program in five counties in Southwestern Pennsylvania we took our concept to HUD in Washington, DC. There is no request for proposals it was a cold call. Simply to show them our concept and results that we had achieved. HUD found that their other HUD-approved counseling agencies were not as comprehensive, were not getting the same results and were not getting the leveraging factor as HOPE does. We asked HUD to do two things: 1) on FHA insured cases, to pay our fee, and 2) we wanted to replicate the program nationally, because, as you know in the mortgage industry, large, national mortgage investors in the secondary market end up owning the majority of mortgages in most communities. Therefore, we felt if we could develop a national system, where the HOPE Program was implemented by locally-based nonprofit corporations who are supervised and monitored in the HOPE Program process that we would be able to solicit the involvement of national mortgage investors and insurers, as well as, the local lenders and utilities. This has proven to be true. Not only has HUD and the FHA oined but the largest private mortgage insurer, MGIC, and the largest mortgage investor, Fannie Mae, have signed up and are playing a major role in the replication of HOPE. Additional lenders come on board weekly. Additional cities, from all over the country have requested our services directly to us or asking HUD to send the HOPE Program to their area

In Pennsylvania, we have had experience with a state program - the Homeowners Emergency Mortgage Assistance Program, which is referred to in Pennsylvania as Act 91, with an effort that provides loan monies in a similar fashion as is demonstrated in HR4292. In Pennsylvania, HOPE was working before Act 91 came into existence. Before Act 91, the lender was wi ling to forebear and walk extra miles on behalf of a delinquent borrower, after Act 9 where the lender was entitled to immediately have his arrearage reimbursed and monthly payments subsidized - so - there seem to be no reason to forebear, simply to use Act 91 as a first recourse Act 91 is operated by the Pennsylvania Housing Finance Agency. Housing Opportunities is one of the thirty counseling agencies that provide supportive services for Act 91 and has had state-wide contracts with the Pennsylvania Housing Finance Agency so we know the program well. After its first three years of operation, it was only approving 40 of the applicants while the remaining 60% were being rejected Once a lender has waited for the process of Act 91, and when the family is rejected then the lender is very quick to foreclose Additionally the other efforts to help the family forestall foreclosure don't come into play, because everybody is expecting the state to bail them out, therefore they don't take the kind of remedial steps that are necessary. Although the word counseling is used in Act 91, the Pennsylvania Housing Finance Agency simply pays the counseling agencies sufficient income to push all the paper that is required in this program. And therefore

the kind of comprehensive counseling and human assistance that the HOPE program provides in assisting a family back to self-sufficiency does not occur.

I think that HR4292 is a very positive and strong bill that needs a few amendments to leverage its resources more within a community effort. Amendments that would not simply bail out lenders and mortgage insurers, but provides assistance in a way that involves the lenders and community to assist its neighbors in need. In this way HR4292 would be able to service at least twice the number of families as it would under the current bill and with a much higher success rate both in avoiding foreclosure and assisting people back to self-sufficiency. On Page 2 line 11 if we could add the word community to emergency mortgage relief and to broaden the scope of the program that it leverages money in the way that the HOPE program does.

Since HUD would be the administering agent of this program and considering that HUD has already invested approximately 2 million dollars in expanding the HOPE program, the mechanism is there to expand and use the HOPE model. The only reason that the HOPE replication has gone at the pace that it has is because of the limited amount of funds available for HUD to put behind this particular project. I think it is important to note that under the Housing Opportunities model, we use existing not-for-profit corporations that are locally based to administer the program in their area, so we are not building a massive bureaucratic company but rather nurturing and supervising the local based nonprofits. To date, HOPE is operates in parts of Pennsylvania, Ohio, and Texas by seven nonprofit agencies.

I would be most happy to work with this committee and its staff to share our practical experience in this program in utilizing the lessons that we have learned to leverage the monies made available in HR4292.

I have included, in my written report, an analysis of how the HOPE model will more than double the number of families serviced and provide more than 112 million dollars in private sector funding to provide the comprehensive social services in leveraging other community resources.

Also included, is the list of names of individuals who are volunteering on our National HOPE Advisory Committee currently chaired Phil Abrams and soon to be chaired in June by John Knapp. On this committee are individuals from the control of the currency, HUD, Federal Home Loan Bank Board, trade associations, Fannie Mae lenders and utilities. This group assists Housing Opportunities' staff in meeting with appropriate participants in the HOPE Program in cities where degree of need has been demonstrated. This group of volunteers is another example of the spirit that the HOPE model achieves in individuals and institutions which have vested interest in housing and communities.

I have also listed the names and addresses of the agencies who currently operate the HOPE Program and a list of cities where the HOPE Program will be operating in the very near future.

THE NATIONAL ADVISORY COMMITTEE ON HOPE

1. Phil Abrams
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5575 DTC Parkway
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Englewood, CO 80111

Chairman - National HOPE Advisory Committee

2. James Nistler
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3. James P. Butler
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Customer and Industry Affairs
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6. James W. Lowell
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13. Ann Strishock
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14. Mr. Leo F Wright
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1801 K Street, NW
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15. Lance Wilson
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16. Robert O'Toole
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Government Agency Relations Department
Mortgage Bankers Association
1125 - 15th Street, NW
Washington, DC 20005

17. Peter E. Knight
Vice President & Director of Mortgage Finance
National Council of Savings Institutions
1101 - 15th Street, NW
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18. John J Knapp
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100 Pennsylvania Avenues, NW
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HOUSING OPPORTUNITIES' ANALYSIS OF HR4292
CURRENTLY AND WITH THE HOPE AMENDMENTS

EXISTING HR4292		HR4292 WITH HOPE AMENDMENTS	
	500,000,000		500,000,000
Less Administrative and program management (4%)	- 20,000,000	Less Administrative and program management (4%)	- 20,000,000
HUD Counseling Agency Processing Loan Applications 5 units @ $25/unit $125.00 per case	- 5,856,000	HUD Counseling Agency Processing Loan Applications	- 00 -
Leveraging Factor:	- 00 -	Leveraging Factor: -local lending inst tutions utilities, mortgage insurers, mortgage investors, pay for comprehensive counseling, HOPE management fees 112,941,600 Community resource well match fund in mort relief assistance (HR4292) 480,000,000	592,941,600
Available for providing mortgage relief loans	474,144,000	Available for providing mortgage relief loans	960,000,000
Average loan is calculated by: Average mort. pymt. X Average 3 mo. delq. 850.00 X 3 2,550.00		Average loan - same as in existing example on left	
Subsidy of 1/2 of pymt for 18 months (850X50%X18) Total Average Mortgage Subsidy 10,200.00		Total Average Mortgage Subsidy 10,200.00	
Total Loans Provided	46,848	Total Loans Provided	94,118
Total Amount of Mortgage Relief Assistance Available for mortgagors	480,000,000		1,072,941,600

HOPE PARTICIPANTS

SAVINGS AND LOAN	STATE
First Federal Savings & Loan of Pittsburgh	PA
Security Federal Savings & Loan Association	OH
Ohio Savings Association	OH
Women's Federal Savings Bank	OH
The First Federal Savings Bank	OH
Horizon Savings	OH
Third Federal Savings & Loan of Cleveland	OH
Western Reserve Savings Bank	OH
Cardinal Federal Savings	OH
Transohio Savings Bank	OH
Home Federal Savings	OH
Enterprise Federal Savings & Loan	OH
University Savings	TX
San Jacinto Savings Association	TX
Gibraltar Savings	TX
First Texas Association	TX
Home Federal Savings & Loan Association of Hamilton	OH

COMMERCIAL BANKS	
Pittsburgh National Bank	PA
Mellon Bank	PA
McKeesport National Bank	PA
Society National Bank	OH
National City Bank	OH
The Central Trust Company	OH
The Provident Bank	OH
The Fifth Third Bank	OH
First National Bank	OH

SAVINGS BANKS	
Dollar Bank	PA, OH

MORTGAGE BANKERS	
Security Savings Mortgage Corp.	PA, OH

MORTGAGE INVESTORS	
Fannie Mae	DC

MORTGAGE INSURERS	
Federal Housing Administration (HUD)	DC
Mortgage Guaranty Insurance Corporation	WI

PARTICIPATING UTILITIES	
Duquesne Light	PA
Equitable Gas	PA
Ohio Edison Company	OH
The Peoples Natural Gas Company	PA

NONPROFIT FRANCHISEES
OPERATING THE
HOME OWNERSHIP PROTECTIVE EFFORT (HOPE) PROGRAM

OGRAPHICAL LOCATION		
E	COUNTIES	AGENCY
SYLVANIA	Allegheny Beaver Butler Washington Westmoreland	Housing Opportunities, Inc. 133 Seventh Street P.O. Box 9 McKeesport, PA 15134 412 - 664-1590 Carl J. Murawski, Exec. Dir. Rachel Conrad, HOPE Coordinator
	Erie (City of)	H.A.N.D.S., Inc. 139 East 12th Street Erie, PA 16501 814 - 459-1047 Charles Scalise, Sr., Exec. Dir. Charles Scalise, Jr., HOPE Coor.
	Erie	Family Services 110 West Tenth Street Room 208 Erie, PA 16501 814 - 454-6478 Thomas Vinca, Executive Director ------ , HOPE Coordinator
	Cuyahoga	Lutheran Housing Corp. 1967 W. 45th Street P.O. Box 20910 Cleveland, OH 44102 216 - 651-0077 Gary Tate, Executive Director Bobbie Peery, HOPE Coordinator
	Mahoning	Youngstown Area Urban League 2516 Market Street Youngstown OH 44507 216 - 788-6533 Stephen Pressley, President Michael S. Green, HOPE Coordinator
S	Dallas	Consumer Credit Counseling Service of Greater Dallas, Inc. 1949 Stemmons Freeway Suite 200 Dallas, TX 75207-3104 214 - 748-2227 David H. Dugan, President Gene Arnold, HOPE Coordinator
	Dallas	Dallas Urban League, Inc. 2121 Main Street Suite 410 Dallas, TX 75201 214 - 747-4329 Roosevelt Johnson, Exec. Dir. Pat S. Moore, HOPE Coordinator

EXPECTED CITIES AND TIMETABLES FOR HOPE START-UP

Canton, Ohio
Akron, Ohio
Warren, Ohio

Operator: Catholic Charities Diocese of Youngstown

Start-up: Early summer

Fort Worth, Texas

Operator: Incubating new agency which Fort Worth Housing Finance Corporation recently committed $257,000 challenge grant to establish a locally-based, not-for-profit housing corporation to implement EHOP and HOPE.

Start-up: Mid-summer

Houston, Texas

Operator: Similar incubating processes being used as in Fort Worth.

Start-up: Late summer

Cincinnati, Ohio
Northern Kentucky

Start-up: Mid-summer

Joliet, IL
Will County, IL

Start-up: Mid-summer

REPORT ON
HOME OWNERSHIP PROTECTIVE EFFORT
(HOPE)
BREAKOUT OF HOPE CASES FOR
HOUSING OPPORTUNITIES AND FRANCHISE AGENCIES
JANUARY, 1983 TO MARCH, 1988

MORTGAGE	CASES
FHA MORTGAGES	
BROUGHT CURRENT	87
HUD ASSIGNMENT	47
PAYMENT PLAN (Forebearance)	48
ACTIVE	189
COUNSELING DISCONTINUED	76
FORECLOSURES	15
SOLD HOUSE	10
DEED IN LIEU	12
REFUSED COUNSELING	14
CLIENT REQUESTED TERMINATION	2
LENDER REQUESTED TERMINATION	0
TOTAL	500
VA MORTGAGES	
BROUGHT CURRENT	90
PAYMENT PLAN (Forebearance)	33
SOLD HOUSE	2
ACTIVE	9
COUNSELING DISCONTINUED	8
DEED IN LIEU	3
FORECLOSURE	3
REFUSED COUNSELING	3
CLIENT REQUESTED TERMINATION	0
LENDER REQUESTED TERMINATION	1
TOTAL	152
CONVENTIONAL MORTGAGES	
BROUGHT CURRENT	167
PAYMENT PLAN (Forebearance)	80
SOLD HOUSE	17
COUNSELING DISCONTINUED	55
FORECLOSURES	15
ACTIVE	58
DEED IN LIEU	1
REFUSED COUNSELING	3
CLIENT REQUESTED TERMINATION	0
LENDER REQUESTED TERMINATION	5
TOTAL	401
COMBINED TOTAL CASES	1053

REPORT ON
HOME OWNERSHIP PROTECTIVE EFFORT
HOPE

ASSISTANCE OBTAINED FOR FAMILIES FOR
HOUSING OPPORTUNITIES AND FRANCHISE AGENCIES
JANUARY, 1983 THROUGH MARCH, 1988

RESOURCE		AMOUNT
-FOOD BANK	$331,833.00	
-ADOPT-A-FAMILY	104,822.00	
-REVOLVING LOAN	36,503.42	
-EMPLOYMENT FOR CLIENTS	7,569.65	
-TOOL LOAN PROGRAM	1,200.00	
-ENERGY ASSISTANCE PROGRAM	823.50	
SUB-TOTAL		$482,751.57

MORTGAGE AID HELP	* $442,659.40
UTILITY HELP	238.254.22
OTHER FOOD ASSISTANCE	70,430.00
CASH ASSISTANCE	72,995.00
TOTAL	$1,307,090.19

NOTE: 37% PRIVATE SECTOR $488,967.09
63% PUBLIC SECTOR $818,123.10

* Approximately 70 percent of the $442,659.40 is from Pennsylvania Emergency Mortgage Assistance Program.

HUD has also been funding Housing Opportunities tó export our initial program entitled the Earned Home Ownership Program or EHOP for national replication. As we have been speaking to staff and senators and congressmen, it has been suggested to us that we provide a briefing session on the senate side and on the house side on both EHOP and HOPE. We are planning to do so in the near future.

Stretching and leveraging limited resources, providing professional social services, involving communities in addressing these problems is the aim of HR4292 and HOPE.

I believe that the HOPE model and the mortgage assistance loan, which HR4292 make available can be combined in a way that will serve a greater number of families and individuals with a higher rate of success.

I would like to end my presentation with my willingness to share our experience to assist your committee in addressing the home foreclosure crisis. Again my thanks for your willingness to hear our story and for your concern over home foreclosure which HR4292 addresses. Thank you.

STATEMENT OF

JAMES A. ABBOTT
PRESIDENT AND CHIEF EXECUTIVE OFFICER
FIRST UNION MORTGAGE CORPORATION
CHARLOTTE, NORTH CAROLINA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

Hearings on

HR 4292, the "Emergency Housing Assistance Act of 1988"

May 24, 1988

Mr. Chairman and Members of the Subcommittee, my name is James A. Abbott. I am President and Chief Executive Officer of First Union Mortgage Corporation, Charlotte, North Carolina, and Chairman of the Legislative Committee of the Mortgage Bankers Association of America.* Accompanying me today are Burton C. Wood, MBA's Legislative Counsel and Sharon Canavan, MBA's Deputy Legislative Counsel.

We appreciate the opportunity to appear before you today to express our views on the current situation regarding home mortgage delinquencies and foreclosures and to offer our specific comments on HR 4292, the "Emergency Housing Assistance Act of 1988" and our general views on mortgage relief legislation.

Mortgages, are among the most secure forms of investment. Even at the high delinquency and foreclosure rates of 1982, mortgage defaults affected much less than 1 percent of all outstanding loans, a very favorable record. Moreover, most of the loans on which foreclosure is initiated are not ultimately foreclosed upon, because borrowers are able to bring their mortgage payments current and reinstate the loan.

Foreclosure is but a symptom of the overriding cause--sustained high unemployment. This does not mean that we are not concerned about the difficulties and hardships facing those economically distressed families who are having trouble keeping their mortgage payments current.

Lenders are forbearing whenever possible, particularly where the borrower shows promise of being able to reinstate the loan by becoming current, but lenders are subject to the pressure of meeting and preserving their contractual obligations to investors as well.

Foreclosures are administratively costly and frequently require substantial investment by lenders in improving properties prior to sale. Lenders fully recognize the impact of a foreclosure on the borrower as well as the community. Further, lenders often face great difficulty in selling foreclosed properties, particularly in weak markets. Not only is foreclosure costly but, in the case where mortgage bankers are forced to foreclose on a loan, servicing fees--the bread and butter income for a mortgage banking operation--are lost.

Voluntary Forbearance. Mortgage lenders attempt to forbear with cooperative borrowers where the borrower has a good payment record prior to the delinquency and appears capable of reinstatement. Lenders are willing to reschedule payments, stretch payments out, and work out problems whenever practical, if there is a possibility that the underlying problem can be solved over time. The bulk of loans in default, in fact, are not ultimately foreclosed upon, because the borrower either corrects the default or a forbearance plan is worked out between the borrower and the lender to bring the loan current. Lenders have been extremely active in counseling borrowers, and also encourage borrowers to seek outside counseling, for example, from government supported or nonprofit consumer affairs and financial counseling services.

In order for forbearance to be most effective, borrowers should contact their lenders as soon as a problem develops, rather than when they are substantially in arrears. This allows a lender to formulate a workout and forbearance program before a serious delinquency has set in and substantial arrearages have accumulated. In some cases, borrowers might be able to refinance older, low balance loans to recover some of their equity that has built up. In these cases, if the lender sees the problem as being of limited duration, refinancing is an ideal solution. Lenders can also suggest that a borrower look at the value of the property and consider selling it to recoup the equity and avoid the financial stigma of foreclosure.

*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- Mortgage Banking Companies
- Mortgage Insurance Companies
- Life Insurance Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500

In addition, if a home must be sold, the current housing market is far more congenial to quick and profitable sale by the borrower than the depressed markets during the early 1980s, except for those regions experiencing economic downturn due to the combined impact of deteriorated agricultural and oil-based economies. Moreover, the substantial decline in mortgage interest rates from 1983 to the present has created excellent opportunities for refinancing mortgages and the lower interest rate mortgages that are resulting will further ease the affordability problems plaguing many borrowers.

However, it is prohibitively expensive for a lender to forbear on a voluntary basis for an extended period of time. When a mortgage banker does not receive a borrower's payment, investors often require the lender either to repurchase the loan or to forward payments whether or not they have been received from the borrower. Under seller/servicer requirements for mortgage-backed securities programs of the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA), lenders must forward both principal and interest payment on all loans, including delinquent loans. These investor requirements put an enormous financial strain on a lender.

Lenders prefer to forbear for the reasons noted, but lenders cannot afford to advance funds to investors to cover unpaid loans for extended periods where there is no hope of reinstatement. This is particularly true where lenders are servicing large numbers of loans in localities experiencing high unemployment. Thus, there is a limit to lenders' ability to forbear, but it is a limit that lenders attempt to avoid whenever possible.

For Federal Housing Administration (FHA) insured loans there is already some relief. The Department of Housing and Urban Development (HUD) currently employs two measures to avoid FHA foreclosures--recasting and assignment. These are used in only limited circumstances, however, and another program to provide Temporary Mortgage Assistance Payments (TMAP) has been authorized but not yet implemented. However, HUD approves only about 20 percent of the loans applying for coverage under the assignment program. Approximately 20 percent of the loans approved for assignment ultimately reinstate. Thus, only about 5 percent of the borrowers applying for assignment are able to cure the delinquency, despite concessions and changes in the terms of the original mortgage.

Also, a number of private mortgage insurance companies have already formulated foreclosure assistance programs where borrowers who are deemed to be creditworthy and capable of repayment in the future are offered relief for a temporary period. Usually these programs take the form of a second trust, which taps into the equity built up in a home for security.

However, situations often develop where forbearance would be unjustified on the part of the lender and there is no recourse, except foreclosure. Some of these borrowers would be candidates for a foreclosure assistance program.

MBA believes that the problem of mortgage delinquencies and foreclosures is regional in nature and, therefore, we question the need for broad-scale emergency relief at this time. We are greatly concerned about the impact of assistance programs on the Federal deficit, which is already excessive. Nonetheless, we would like to offer our constructive comments on what we believe the framework of a relief program should be.

EMERGENCY FORECLOSURE ASSISTANCE PROGRAM

Targeted Assistance. MBA's major concern regarding foreclosure relief is its potential cost, particularly because in many instances there is no chance that a borrower will ever be able to catch up again. In this light, we recommend that a relief program, if enacted, be limited in nature, targeted only to owner-occupants, and limited to those borrowers most likely to benefit from the program's assistance.

Such a program should apply only to VA and conventional mortgages, because FHA borrowers are already covered by the assignment program, or, in time, the TMAP program. HR 4292 excludes FHA and Title V (rural housing) loans from the program. In addition to conventional loans, which are clearly covered by HR 4292, mortgage guaranteed by the Veterans Administration should be covered if an assistance program is enacted, because VA devotes few resources to forbearance assistance.

As provided in HR 4292, relief should apply only to the principal residence of a homeowner who, through no fault of his or her own and due to economic circumstances, is underemployed or unemployed. Among the other major causes of delinquency are marital breakups and serious illnesses. It is a pragmatic reality that any funds appropriated for a relief program will be limited, and thus, should be targeted to those most in need due to extraordinarily sustained high levels of unemployment.

Furthermore, as provided in HR 4292, relief should be extended only to those who are deemed capable of resuming payments in the not too distant future, and of repaying the assistance extended. To do otherwise is simply to avoid the inevitable, and stall foreclosure until a later date with little possibility to recoup the assistance.

Regional Trigger. The trigger for activating a foreclosure relief program should be based on regional or local data, rather than on national statistics. Recent foreclosures have been concentrated in areas experiencing high unemployment. While national statistics might not trigger activating an emergency foreclosure assistance program, local conditions in many regions could warrant implementation.

Ironically, the fact that lenders are forbearing results in an increase in the foreclosure statistics, because loans are being held in foreclosure status for longer time-periods, as lenders attempt to continue working with responsible borrowers rather than completing the foreclosure. Also, it should be pointed out that some portion of the loans currently delinquent and in foreclosure are mortgages on investment properties, rather than owner-occupied properties. Unfortunately, it is not possible to separate investment versus owner-occupied properties in the available statistics. This does suggest, however, that not every mortgage problem represents a threat to a family's ability to retain its shelter.

Regarding the trigger mechanism itself, HR 4292 utilizes the Federal Home Loan Bank Board's (FHLBB) delinquency statistics. While these statistics collect data primarily for conventional loans, they do not give a breakdown of the primary reason that a borrower is delinquent, that is, whether it is due to unemployment, marital discord, illness, or other causes. Therefore, the FHLBB statistics do not give the truest picture of the situation.

Furthermore, any trigger that is used should have an automatic cutoff, which HR 4292 does provide, so that once statistics slide below the trigger level, the program will automatically deactivate. Of course, as proposed by HR 4292, those borrowers who have already been accepted for relief under the program should continue to be served until their eligibility period expires.

However, MBA has strong concerns that the trigger as set in HR 4292, does not sufficiently target assistance to the most economically stressed areas. The program is activated by Federal Home Loan Bank (FHLB) District whenever the 60-day default rate as measured by the FHLBB rises for a three month period to 2.0 in any given FHLB District. As of September 1987, five of the 12 FHLB Districts would have been covered. This broad a trigger threatens to spread much needed assistance too thinly.

A foreclosure relief program should be designed so as not to increase the incentive for a borrower to default. MBA believes that the 1978 liberalization of the Bankruptcy Act has resulted in increased bankruptcies. We fear that a foreclosure relief program, if it is too expansive in its design, will decrease the incentive for lenders to forbear and devise workout programs, will diminish the maximum use of the private programs offered by lenders and mortgage insurance companies, and will result in increased delinquencies beyond what otherwise might occur because borrowers will be aware that a relief program is available.

Borrower Contributions. In this vein, a foreclosure relief program should only supplement a borrower's limited ability to pay, by requiring a borrower to make partial payments from whatever income the borrower is receiving.

A borrower should be required to use, but not exhaust, savings and to dispose of luxury assets. Dipping into savings above a Congressionally set level for emergencies would be a small price to exchange for coverage under a relief program. If assets can be sold by a borrower to reduce the credit load, they should be sold if possible. A borrower who can rely on an interest-free loan to keep up mortgage payments has little incentive to sell assets or resume payments to retain his or her home.

These borrower contributions are not designed so much to reduce the cost of the program as to indicate a borrower's ability and willingness to work out delinquency problems. Even if the contribution is nominal, lenders practicing forbearance with

borrowers have found that partial payments are a good indication of a borrower's continued interest in solving the delinquency.

HR 4292 does provide that borrowers make partial payments up to 38 percent of their income both during the assistance period as well as after assistance has expired and the borrower is 'catching up' with assistance repayment.

Interest on Repayments. Furthermore, to reduce the incentive for borrowers to rely on the program when they otherwise may be able to work out problems through counseling or a forbearance plan, MBA urges Congress to impose interest on the assistance payments. This is not intended to penalize a delinquent borrower, so much as to increase the incentive to solve the delinquency by private means rather than simply resorting to what essentially would be an interest-free Federal loan. While HR 4292 imposes interest, the interest does not begin to accrue until after the assistance period has run its course.

Secured Assistance. MBA believes that any assistance payments should be recapturable. The assistance payments should be secured by a second lien or second trust against the property to ensure repayment. HR 4292 provides for such a lien against the property.

Assistance payments made by lenders and mortgage insurers, who are voluntarily forbearing, are also often secured by liens or second mortgages. MBA would urge that Congress explore the possibility of insuring loans made by lenders to cover amounts in arrears that accumulate while lenders voluntarily forbear on loans, as well as exploring other possibilities for expediting recasting or other forbearance mechanisms, and making those workable within the market constraints imposed by investors.

For instance, there is a real potential within the GNMA Mortgage-Backed Securities program for providing relief to delinquent borrowers whose loans carry higher than current market interest rates. If such loans were allowed by GNMA to be recast with lower rates, then re-pooled into new securities, the homeowners would be able to stay in their homes and the government would avoid losses on these FHA and VA mortgages. We have estimated that as many as 50 percent of delinquent families in Texas with high rate FHA-VA loans might benefit, at no cost to the government.

Assistance Term. MBA also urges that assistance under a foreclosure relief program should not be extended for too lengthy a time period, unless a borrower has a significant amount of equity in the home. Most foreclosures occur within the early years of a mortgage, when there may be little equity built up in the home, particularly where the downpayment was small. In such a case, foreclosure relief should be limited, because of the strong possibility that a borrower, faced with repayments that exceed equity, will simply walk away and default after the assistance has run out.

The lack of equity invested in a home is as a great a reflection of a borrower's future willingness to pay as the prospect of future employment is a reflection of that borrower's future ability to repay the mortgage. Therefore, assistance payments should not exceed the equity, because the chance of recapturing assistance above the purchase price of the home is slight.

MBA suggests that assistance payments should be limited to six months, with six month extensions up to a total of 18 months. To go much beyond this time period severely reduces the ability of a borrower ever to repay the assistance and to bring the mortgage current. Where a borrower has a substantial amount of equity invested, especially when a borrower has a chance of future employment or job retraining, a different case exists. Here the assistance should be limited to accumulated equity or 36 months of assistance payments, whichever is less.

MBA would further like to comment here that the most efficient use of assistance funds would be to limit assistance to cover arrearages only. Many lenders have informally suggested that borrowers who are most able to reinstate are those who can, with appropriate financial management counseling, make the monthly payments, but who are unable to bring the loan current because of payments in arrears that have accumulated.

Periodic Reviews. Lenders or other parties should counsel borrowers during this period, and conduct periodic reviews to determine whether the circumstances of the borrowers have changed, either positively so that the borrower no longer needs assistance, or negatively, so that further assistance would be wasted because the borrower has little chance of regaining solvency. There should be penalties imposed for fraudulent misrepresentations by a borrower concerning present employment or assets, either at the application or periodic review stage. While HR 4292 provides for periodic reviews by

lenders, at least annually, it does not address fraudulent statements or misrepresentation by borrowers.

Assistance Payments. Assistance payments should cover principal, interest, taxes, assessments, hazard insurance, mortgage insurance, ground rents, lenders' expenses in connection with payments or repayments, and any charges necessary to bring mortgages current. The assistance provided in HR 4292 covers these items.

Foreclosure Delays. Section 6(b), (c), and (d) of HR 4292 delay foreclosure proceedings during the application process. These procedural delays should be carefully circumscribed. Postponement of foreclosure proceedings should be limited to no more than 45 days after receipt by the HUD Secretary of an application for assistance. Otherwise lenders will be subject to significant potential delays, beyond their own voluntary forbearance period, if assistance is ultimately denied because the borrower is deemed by HUD not to be capable of reinstatement. The proposal does not, in fact, address compensation to lenders for forbearance during the application period if the assistance is denied. Because VA and conventional loans are not fully covered by mortgage insurance, significant delays during which time arrearages mount, will result in greater losses for lenders.

In this vein, the stay of foreclosure and proof of compliance requirements imposed by Section 6(c) and (d) should cover only mortgages that fall within the eligibility criteria prescribed by the assistance program in Section 5.

Furthermore, HR 4292 recognizes the importance of voluntary forbearance in Section 5(a)(6) by requiring the borrower to cooperate where voluntary forbearance is offered by the lender. The application for program assistance should be filed as early as possible during the delinquency, so as not to discourage voluntary forbearance efforts of lenders who reasonably do not want to be subject to further delays while the borrower applies for and HUD considers the assistance application.

If the program is enacted, its requirements should be triggered and its procedural delays imposed only if regulations are in force, appropriations are authorized, and program funding is available. Otherwise, lenders will be subject to significant delays, that will be extremely costly and will have a direct impact on the cost of servicing, which will be passed along to borrowers via increased mortgage interest rates.

SUMMARY

Historical experience has shown that the best medicine for delinquent mortgage payments is a strong economy with a low unemployment rate. A primary factor in ensuring long-lasting economic recovery is a determined effort on the part of Congress and the Administration to reduce the massive budget deficits that now hang over us. Federal deficit financing is the chief threat to the kind of sustained economic growth that is necessary to alleviate unemployment, increase incomes, and ease consumer debt burdens generally.

In closing, MBA believes that the current foreclosure problem is closely tied to unemployment, particularly structural unemployment in the oil and agricultural industries. While the cost of a foreclosure program is insignificant compared with the entire Federal budget, it is just such incremental additions that bloat the total deficit. If Congress decides to enact a foreclosure relief program, it should attempt to target the program to those who will benefit the most, and with the assistance, get back on track and resolve their mortgage delinquency situation. Our suggestions that are incorporated in this testimony attempt to target the framework of an assistance program to those who can regain their financial footing in the future.

MBA appreciates the opportunity to testify today. We welcome any questions that you may have.

TESTIMONY OF PHIL GASTEYER

ON BEHALF OF THE U.S. LEAGUE OF SAVINGS INSTITUTIONS

BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

REGARDING H.R. 4292

MAY 24, 1988

Mr. Chairman, members of the subcommittee, my name is Phil Gasteyer and I am Executive Vice President of the United States League of Savings Institutions* here in Washington D.C. The League is pleased to have the opportunity to participate in these hearings and to work with the subcommittee on the very important aspect of housing policy. Keeping families and their homes together is just as important from the public policy perspective as getting families into home ownership in the first place. We want to compliment the Chairman of the Subcommittee for his commitment to this issue and to housing and home ownership as a national priority.

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*The U.S. League of Savings Institutions serves the more than 3,000 member institutions which make up the $1.2 trillion savings association and savings bank businesses. League membership includes all types of institutions -- federal and state-chartered, stock and mutual. The principal officers include: Theo Pitt, Chairman, Rocky Mount, N.C.; B. R. Beeksma, Vice Chairman, Oak Harbor, WA; Phil Gasteyer, Executive Vice President, Washington, D.C. League headquarters are at 111 East Wacker Drive, Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone (202) 637-8900.

I also want to indicate the general support of the League for the legislation introduced by Chairman Gonzalez to deal with the problem of mortgage delinquency resulting from economic hardship. The League and its members are well aware of the economic calamity that can befall individuals and institutions alike when they are caught on the wrong side of the economic pendulum. It is safe to say that in every region of the country where this program would become operative, we would find thrift institutions in the same boat as the home owners - both victims of the same economic forces.

H.R. 4292 would create a mandatory HUD program to assist eligible home owners who, through no fault of their own, were in danger of losing their home to foreclosure. The bill is, in our view, carefully focused and targeted to particular problems. Eligibility criteria reflect a thoughtful effort to assure that assistance is provided to deserving home borrowers. While we do support the approach taken in the bill, Mr. Chairman, we do have some reservations and some suggestions which we believe will improve the program.

PROGRAM ACTIVATION

The assistance program authorized by H.R. 4292 would become available in any Federal Home Loan Bank District where the 60-day default ratio is 2.0 or higher for a three-month period. We do not object to the use of this measurement, but we do want to point out the fact that the monthly reports include only loans held by Federal Home Loan Bank member institutions. Since the loans eligible for assistance under the bill are all non-FHA loans, the subcommittee needs to understand that this is not a perfect match.

We also want to point out to the Subcommittee that the twelve bank districts vary greatly in size, total population, volume of mortgage loans, and number of States. A State may be very much in need of the program but may be in a district where the data are dominated by a larger state where economic conditions are more favorable at the moment. We suggest that the bill be amended to allow an individual State to apply to HUD for activation of the program when it can demonstrate its qualification even if the FHLB District to which it is assigned cannot.

GENERAL RESERVATION

There is, Mr. Chairman, one major concern we have with the program that HR 4292 would create and it stems from the budget limitations of the bill which are, no doubt, the product of political reality. Hopefully the revolving fund will be sufficient to assist all eligible homeowners in all eligible Bank Districts. But if not ... if some get the help and some do not, we do not want the lender, in even the most remote way, to be put in the position of deciding who gets the help and who does not.

This problem arises out of the provision in Sec 6(a) of the bill which requires the lending institution to assist the home owner in the preparation of the application to HUD. The practical reality of this could be that the lender will be the determinant deciding who qualifies and who does not. The qualification elements both as to the property and the mortgagor in Section 5 are extensive and quite precise in many respects. No doubt this is the case so that the program will not be abused and that the limited funds will be used to benefit the most deserving. However, some of the requirements are beyond the capability of lenders to ascertain with any degree of certainty. Why someone has lost a job or had a reduction of income and what their prospects are for financial recovery within the future two and one-half years is highly subjective. Given other provisions of federal law-- the Fair Housing Act, The Equal Credit Opportunity Act, etc.,-- it is imperative that lenders go to great lengths to eliminate subjectivity in their mortgage programs. Surely everyone will agree that antidiscrimination standards are just as important in deciding who keeps a house as who gets a house in the first place.

In order for us to fully support this type of legislation, Mr. Chairman, and for our members to feel confident in performing an administrative role in such a program, there would have to be certain safeguards provided. At a minimum, the borrower would have to bear the full responsibility for the accuracy and validity of information establishing eligibility. This is really no more than the legal relationship that exists at the time a mortgage is applied for in the first place. Secondly, given the fact that some applications will be "in process" when the program turns off, or that HUD may suspend payments because the money runs out, the lender should be held harmless with respect to all antidiscrimination laws with respect to the administration of this program.

<u>CONTRACT RELATIONSHIP</u>

The keystone of the private, conventional mortgage market is the legal, contractual relationship that exists between the mortgagor and mortgagee. Absent federal government guarantees and insurance such as the FHA and VA programs, the Congress should be cautious in tampering with this relationship, especially with regard to existing contracts. Our concern with HR 4292 in this regard is in Section 6(c) "Stay of Foreclosure Proceedings". While foreclosure is a last resort for a lender, and something which all lenders want to avoid, the lender's legal right of foreclosure must be maintained in order for the whole fabric of private mortgage finance, including a successful secondary market system, to function properly.

Here again our concerns are practical rather than theoretical. How long will it be between the time an application is sent to HUD and the monthly payments start flowing to the lending institution? Our experience with federal agencies is not encouraging on this point. We foresee significant delays during which the mortgagor is free of any obligation to make any payments while foreclosure is suspended. There will undoubtedly be situations where the program will cease in an area while applications are pending on cases where foreclosure has been suspended.

A far better approach, in our view, is to get people into the program before foreclosure proceedings begin. We could perhaps accept a limited time period from the time of application before any proceedings could be instituted by the lender. Sec. 7(g) of the bill requires HUD to complete its work in 45 days. We suggest that the time be shortened to 30 days in order to give lenders some degree of confidence in the program. Frankly, if HUD cannot approve completed applications and start the payments in 30 days, this program is going to be less than successful in delivering needed assistance anyway.

In seeking to protect the contract rights of lenders, Mr. Chairman, we are seeking nothing more than the rights that the bill conveys upon HUD as a lender-insurer. I am referring to Sec. 8 (b) (1) (A) and (B) of HR 4292 which gives HUD the authority to enter into the same contractual relationship and to have the same foreclosure right as that of the private sector lender.

Section 8 raises yet another concern. It is not at all clear what the relative position will be between a private sector lien holder and HUD. Section 7 provides that HUD's lien will be subordinate to existing mortgages. This language clarifies our member institution's position as holder of the first mortgage and any home improvement or home equity loan that are in the form of a mortgage. This does not, however,

address the possibility of other liens which are not in the form of a mortgage. The provision in Section 8 suggests something other than a subordinate lien position for HUD. There may well be more than one lien on the property in question before the HUD assistance is applied for. There is also the possibility of liens being filed against a property between the time that assistance begins and the actual filing of HUD's lien.

We assume, Mr. Chairman, that it is not the intent of the legislation to put HUD's interest ahead of any of those already on record. This matter can be remedied by tightening the language in Section 7.

ROLE OF FINANCIAL REGULATORS

Section 11 of the bill instructs each of the financial regulatory agencies to adopt a policy of encouraging their regulated lenders to forbear on delinquent mortgage loans. We believe that this section is absolutely essential in any legislation of this kind. Without it the lender will be in a "no win" situation. Absent clear pro-forebearance directives from the top, examiners will see only the "nonperforming" loan and what would appear to be a lack of diligence in protecting the institution's interest.

While we endorse this section, Mr. Chairman, we must point out that it will assure forbearance only on mortgage loans held in the portfolios of thrifts, banks, and credit unions. As you know, there has been in recent years a steady increase in the percentage of mortgage loans being held, not in traditional portfolios but in the secondary market agencies or other holders such as insurance companies and pension funds. These loans are serviced by mortgage bankers and savings institutions for the most part. In these cases it is the servicer of mortgages that HR 4292 speaks to rather than the holder. In order to assure the same forbearance opportunities to all conventional loan mortgagors, the bill would have to be amended to extend the forbearance language to FANNIE MAE and FREDDIE MAC and non-federally-related investors. Here again there is a contractual relationship of which the legislation must be cognizant. In the case of each of the secondary market agencies the "seller/servicer" performs services for the agency as provided by their standard (and very detailed) contract and guide. Some of these procedures may have to be altered where the emergency program is in effect.

Similarly the notification provision in Section 4 will need to be amended. The two secondary market agencies will have to be notified as to what areas are classified and declassified for the emergency program. Absent these changes, Mr. Chairman, a growing segment of the conventional mortgage market will not receive the full benefit of the efforts of this subcommittee as represented in the legislation before us today.

REGIONAL ECONOMIC CONDITIONS

Among the many positive features of HR 4292 is the recognition that economic conditions vary dramatically from one region to another. It is quite fashionable today to talk of national and even global financial markets. Undeniably the trends are in that direction. We should not forget however that people still live their lives in neighborhoods and communities and towns and that if you don't happen to reside in the currently blessed part of the country, there is little solace in knowing that the nation as a whole is prospering. National data obscure the fact that certain regions, especially the Southwest, the farm belt, and the Northwest are experiencing economic hardships not unlike those of the 1930s. By comparison the more economically diversified areas like New England , California, the industrial Midwest are generally prospering.

The real estate markets in particular reflect these regional differences. Housing starts in the Southwest in 1987 were 78% below the 1983 figure while in the New England region starts were up 82%. Office vacancy rates are twice as high in the Southwest as in New England and, directly pertinent to today's hearing, residential mortgage loan delinquencies are three times as high.

As indicated earlier, we would like to see the program targeted even more tightly than it is, by state if possible, but we, nonetheless, support the regional approach taken in the drafting of the bill.

When a regional economy goes sour, for whatever reason, the response of the nation as a whole should be to treat the situation as we would a natural disaster. There is hardly a second thought given to helping people who lose their homes to a flood or tornado. Why should an economic calamity be treated with any less attention? As everyone on this Subcommittee knows, the U.S. League and its members are especially sensitive to regional economic variations At the beginning of this decade our members in the Northeast were in need of help. Congress responded with the net worth certificate program that bought time for the well managed of those institutions. Today the thrifts in the Northeast are prospering in the atmosphere of the economic revival of the region. Conversely, the Southwest, booming with the oil industry ten years ago, is having its all too well publicized difficulties. Co[illegible] year recognized the regional nature of the situation and, as

part of the FSLIC recapitalization bill, directed that Federal Home Loan Bank Board to institute a forbearance program to fit the times.

Legislation such as HR 4292 can be seen as a logical next step. It addresses the specific financial assets which are, in and of themselves, sound investments which happen to be temporarily nonperforming due to a general economic climate a one point in time. While it may not be intended as such, this bill will help, however marginally, to relieve the strain on the deposit insurance agencies. It does so by guaranteeing a continued cash flow for what would otherwise be nonperforming assets of an insured institution. The plan proposed in the bill is not too dissimilar to the Home Owners Loan Corporation used very successfully in the depression era to prevent foreclosures on delinquent home loans.

The major difference between the HOLC of the depression era and the approach proposed in the current bill is that the HOLC actually took over the loans that were delinquent and became the primary lien holder. We believe that for the extreme cases of regional economic stress, Congress should explore the possibility of reinstating the HOLC concept for real estate in general.

CONCLUSION

In conclusion, Mr. Chairman, the U.S. League supports your efforts and those of the Subcommittee to provide direct federal assistance to homeowners facing the possible loss of their home as a result of economic conditions beyond their control. The federal government has faced the same situation on a large scale before and has responded to the need. There is no reason for people caught in the same circumstance today not to expect similar assistance. We cannot, however, strictly endorse HR 4292 as it stands now. Many of the issues we have raised can, no doubt, be remedied and we are prepared to work with you and your staff toward that end.

Of greater importance, however, is our fear that the program will be far too limited to meet the need that exists in the most severely depressed regions of the country. Combined with the primary relationship this bill demands of conventional lenders in determining who will get the aid and who will not, the limited resources put the lender in an untenable position. To be very candid, Mr. Chairman, I am no sure this problem can be so easily resolved. But we are willing to try.

Thank you for giving us this opportunity to share our views with the Subcommittee. I would be happy to answer any questions you may have.

Statement of J. Edward Carlton, Jr., Secretary/Treasurer
Mortgage Insurance Companies of America
on H.R. 4292 before the Housing Subcommittee of the House
Committee on Banking, Housing and Urban Affairs

Tuesday, May 24, 1988

I am J. Edward Carlton, Jr., President of Integon Mortgage Guaranty Corporation, Winston-Salem, North Carolina and Secretary/Treasurer of the Mortgage Insurance Companies of America (MICA)*. MICA appreciates this opportunity to discuss the foreclosure problems faced by people in many sections of the country. We applaud the spirit and intent of H.R. 4292 and recognize the need to deal with the personal trauma and financial stress that families undergo during foreclosure but we cannot support the approach taken in the Bill. We believe that many of the problems can be dealt with by private sector initiatives.

Few industries understand the problems of foreclosure better than the mortgage insurance industry. Mortgage insurers have paid a record number of claims in recent years on mortgage loans that have gone into foreclosure. Between 1983 and 1986 mortgage insurers paid over $3 billion in claims benefits to lenders and investors. The record of $1.2 billion in claims paid in 1986 was a five-fold increase over claims paid in 1982. Each claim represents a borrower who has gone through foreclosure.

Mortgage insurers continually analyze their claims experiences in an effort to develop ways to reduce the number of loans that go into foreclosure. Mortgage insurers are in a unique position from many other members of the mortgage finance industry because we are on the same side of the mortgage transaction as the borrower. The primary role of our insurance coverage is to substitute for the borrower's equity and thereby allow borrowers to obtain mortgages with low downpayments. When mortgage insurers underwrite loans we try to ensure that the home will remain affordable for that borrower far into the future. If unforeseeable problems develop with the borrowers ability to continue to make payment, we attempt to find solutions to those problems. These solutions help reduce the claims we have to pay and reduce the number of people who have to go through the anguish of foreclosure.

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*MICA consists of the fourteen domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President William A. Simpson of Republic Mortgage Insurance Company, Winston-Salem, NC; and Vice President, William Lacy of Mortgage Guaranty Insurance Corporation, Milwaukee, WI; Secretary/Treasurer, J. Edward Carlton, Jr., of Integon Mortgage Guaranty Corporation, Winston-Salem, NC. MICA also has member companies in Canada and Australia. At the end of 1987 the industry had over $2 billion of insurance in force. The current members of MICA include Commonwealth Mortgage Assurance Company, Foremost Guaranty Corporation, General Electric Mortgage Insurance Companies, Home Guaranty Insurance Corporation, Integon Mortgage Guaranty Corporation, Investors Mortgage Insurance Company, Mortgage Guaranty Insurance Corporation, PMI Mortgage Insurance Co., Republic Mortgage Insurance Company, TMIC Insurance Company, Inc., Triad Guaranty Insurance Corporation, United Guaranty Corporation, U.S. Mortgage Insurance Company, Verex Assurance, Inc., The Mortgage Insurance Company of Canada and Mortgage Guaranty Insurance Company of Australia.

I would like to share with the Committee today some lessons my industry has learned about the problem of foreclosure and about how to reduce foreclosures once the borrower has developed a problem with his or her ability to make the mortgage payments These lessons will be considered within the context of the Bi 1 (H R.4292) sponsored by Chairman Gonzalez in order to better evaluate why this initial approach in the legis ation must be revised I hope to impress upon this Subcommittee the need to recognize the existing limitations that the mortgage finance system must operate unde and the importance of maintaining both the integrity of the contract between the lender and borrower and the responsibility of the private sector not the government in implementing a workable program of foreclosure relief MICA believes it is essential that the lender remain the final arbiter of how to best deal with a delinquent loan.

The first lesson we have learned is that the financial problems of the borrower must be discovered and addressed at a very early point in time, before the borrower loses a realistic ability to restructure his financial difficulties. A feasible plan should be developed early on that will help him cure the mortgage default. This means that problems must be discovered much earlie than when the loan s n foreclosure or 90 days delinquent Mortgage insurers genera ly require lenders to notify them when a loan is 30 days in default and to take steps to determine the reason for the default. In fact, many mortgage insurers consider early detection so important that they now attempt to ascertain problems before a default occurs such as areas that are likely to become economically depressed Because of the importance of equity to the probability of foreclosure, it makes good business sense to make plans to work with borrowers should they face default.

Early detection is important also because it enables lenders and mortgage insurers to counsel borrowers at a very early stage to determine if the problem can be resolved Mortgage insurers consider counseling to be a key factor in preventing foreclosure and many lenders and mortgage insurers have counse ing programs to work with delinquent bo rowers. The Bill however does not mandate counsel ng at an early stage in the delinquency and prior to receiving government assistance. Thus if such government assistance were to be offered, it would likely remove the effect veness of the counseling programs of lending institutions and mortgage insurance companies.

Under existing counseling programs developed by mortgage insurance companies, the insurer and the lender work together While the lender has the p imary responsibility to dea with the borrower, the insurer unde ts counseling program often contacts borrowers who are in default to scertain their problem and to suggest actions that might benef the borrower In many situations, a representative from a mortgage insurance company or an independent counselor will then meet with the borrower to discuss his or her personal finances The counselor will evaluate the borrower's total obligations and ident fy changes that could be made in spending patterns The counselor will often recommend corrective course of action and with the lender's approval, establish a repayment plan and continue to monitor the situation.

One must note that counseling by lenders and insurers is relatively new and this Subcommittee may not have had the opportunity to study the many developments and new programs that lenders, insurers, the federal secondary market agencies, and others have introduced recently. It may be advisable as improvements in this important legislation are sought, to study existing programs. After all, the need for counseling was only widely recognized and implemented in recent years as the housing markets have experienced record foreclosures In addition, counseling was just made more readily av lable for certain borrowers under the 1987 Housing Act. This feder ly initiative as well the private initiat ves need time to develop to see if they have a definitive impact on the market before more dramatic programs, such as direct government

assistance, are implemented. The Subcommittee staff could perform a valuable service by studying their effectiveness. This review would suggest some key changes that could make H.R. 4292 far more effective.

The mortgage insurance industry has had experience with providing borrowers financial assistance in making thei mortgage payments. Some insurers have developed programs either to make a loan to the borrower or in some ins nces provide direct assistance to help them bring their loan current Both kinds of assis ance however, have been done in very limited circumstances and on a case-by-case basis. While the Bill under consideration today also provides or financia assistance to delinquent borrowers, it does it in a manner that is very different from the way this industry has found to be effective.

For example, mortgage insurers have found that financial assistance must be available only to borrowers who have very specific characteristics, that demonstrate their ability and willingness to repay. These characteristics are not provided for in the Bill. Mortgage insurers look at many of the following actors in determining whether the borrower can reasonably ut ize inancial assistance to help cure the mortgage default over time)whi e the loan has been delinquent has the borrower accumulated other credit obligations; 2)has the borrower disposed of other assets in an attempt to keep the mortgage payment current; 3)is the borrower or members of his family making efforts to work in some way in order to pay some portion of the mortgage and other obligations 4)is there any rea c possibility within the ime frame of the assistance that the borrower would be reinstated in his ob or a similar job in the same geographic area 5 p io to the present circumstances, did the bo rower have a good payment history; and 6)has the borrower maintained the property with pride.

Answers to each one of these questions are weighed and evaluated against each other and other factors. It can not be reduced to an exact science, nor is it something that can be generalized. Mortgage insurers believe they must evaluate whether a borrower deserves financial assistance on a very individual basis and this again reinforces the importance of counseling.

Mortgage insurers have also found that the borrower's wil ingnes to continue to build equity in the home is vital in any workout program H R 4292, however does not require the borrower to cont nue to make even a sma portion of his payment. Equity in the home s a key determinant o potential default. This is true when the borrower purchases the home and s true as he continues to make payments and build equity Continuing to maintain equity is a v ta indication that the borrower has the willingness to continue to make his mortgage payments. Even in those situations where assistance s warranted, willingness to fulfill obligations of the mortgage must be continued.

We also would caution that it is essential that funds from any assistance program not be allowed to exceed the equity the borrower has already put into the house This would be d fficult to enforce, however, in those case where the borrower has only been n the home a few years. Most foreclosures occur within the fir few years of a mortgage, when there may be little equity bu lt up n the home, p icularly where the downpayment was smal In such a case the amount of foreclosure relief that could be made avai ble should not exceed the equity because of the strong possibility that a borrower, faced with repayments for assistance that exceed his or her equity in the home, will default Unless the government or private entity decides to provide a d rect donation to the borrower, it may be better to let the home go to foreclosure rathe than subsidize a bo rower with little o no equity and when there is no future prospect of paying on the mortgage and assistance It is better for the borrower to resolve the tuation and seek lower cost housing, than s to overextend the borrower beyond any future capability of repayment.

MICA also does not believe that federal law should permit foreclosure proceedings to be postponed. The foreclosure laws of the fifty states are already exceedingly difficult to handle. In some st tes foreclosure proceedings can be instituted quickly and easily and n other states the borrower can live six months to a year in a home without making any mortgage payments. These varying laws are one of the factors that most lenders and insurers weigh in determining what course o ac ion to take with a de inquent borrower H R 4292 would delay the foreclosure process further and thus interfere with the abi ity to deal with problems in the best manner for that individual situation.

In addition, MICA is concerned with the situation where an application for assistance is made, the lender forbears on foreclosure, and the app ication denied The loan then would go into foreclosure and the mortgage insurer would pay the c im. The amount o the claim, howeve would be ncreased commensur te with the length of delay in foreclosure because mortgage insurers generally are financially responsible for a portion of the unpaid interest on the loan while it has been delinquent. Any plan like the one proposed in the Bill must address ways to deal with this inequity.

MICA finds that while we agree with the spirit of the Bill, we believe it has significant overall public policy implications which we cannot support We believe that the key to any effort to relieve the personal distress of foreclosure rel ance upon the private sector espec ally the enthusiastic support of the lender. Lenders must remain on the front line of contact with delinquent borrowers, and no art icial restraints should be put on their abi ity to come to an appropr ate settlement Any counsel ng or assistance program such as that excellent program provided by HOPE of McKeesport, Pennsylvania, for example, is enhanced with the approval and assistance of the lender.

MICA, therefore, believes it is fundamentally wrong to provide a direct federal approach to the problems associated with foreclosures due to economic downturns in market We believe this is not workable because decisions on how and whether to restructure a delinquent loan or provide any kind of assistance to a bo rower must be determined by the willingness of the borrower to make a maximum effort to recover and must be determined on a case-by-c se basis. Factors, such as those desc ibed above, must be weighed individually and in a manner that simply cannot be provided for in regulations.

Secondly, we believe a uniform, federal approach to the foreclosure problem invites abuse. It provides an incentive for the borrowe to focus on actions that will make him eligible for assistance and not on actions that will cure the defau t As H R 4292 presently wr tten, borrowers living in area that are eligible for federal assistance wi know that they can get the federa government to make thei mortgage payments for three years by simply defaulting for 90 days. There is no incentive for unemployed borrowers to seek financial counseling or another job that pays less than thei previous position, in order to make at least a pa al mortgage payment This s not to say that the intent of the Bill is to support these unscrupulous practices, but we be ieve there is no way to prevent them. We believe it will harm, not benefit existing efforts such as the HOPE program.

Finally, although MICA is supportive of improvements in foreclosure rel ef the industry would have difficulty supporting a federal program that would appropr te an additional $500 million, thus contributing to the federal deficit Historical experience has shown that the best cure for delinquent mortgage payments is a strong economy A primary facto in ensuring long-lasting economic recovery is determined effort to reduce the budget deficit. Federa de ici financing is the chief threat to the kind of sustained economic growth that i neces ary to alleviate unemployment ncrease incomes, and ease consumer debt burdens generally. Treasury borrowing required to pay for these deficits

limits access by private borrowers in the capital markets and causes interest rates to rise. We strongly urge the Congress to take steps to reduce the federal deficit.

Thank you for this opportunity to comment.

Testimony in Support of H. R. 4292,

The Emergency Housing Assistance Act of 1988

by

Rene Ferran, President
and
Paul Killinger, Executive Vice President

Home Builders Association of Greater New Orleans
also representing the
Louisiana Home Builders Association

before the

U. S. House of Representatives

Subcommittee on Housing and Community Development
of the
Committee on Banking, Finance and Urban Affairs

Washington, D. C.

May 24, 1988

Mr. Chairman, Honorable Members of the Housing and Community Development Subcommittee, we would like to thank you for the opportunity to appear before you today to provide testimony concerning the need for the prompt enactment of H. R. 4292, the "Emergency Housing Assistance Act of 1988."

And we would especially like to thank you, Mr. Chairman, for your courage and foresight in bringing the plight of the growing number of homeless and dispossessed families in our nation to the attention of your colleagues and the American public. When you and the Members of the Housing Subcommittee began these efforts some six years ago, hardly anyone was aware that homelessness and home mortgage foreclosures were fast becoming serious national problems.

Those of us residing in the Sunbelt, including your home state of Texas, for instance, were blissfully unaware we would ever experience these tragedies in our communities. As the result of the run-up in worldwide oil prices, oil-related Sunbelt municipalities like New Orleans and San Antonio were experiencing record growth and full employment. We couldn't build new homes and apartments quickly enough to satisfy the increased demand for housing caused by the in-migration of hundreds of thousands of individuals fleeing the national recession still gripping much of our country.

Little did we know then that a subsequent worldwide collapse of oil prices would soon vis t our region, and that we would witness the worst declines in our local economies seen anywhere in the United States since the Great Depression. This sudden and dramatic economic downturn has not only exacerbated the problems of homelessness, but has escalated in many of these formerly oil-dependent Sunbelt economies so as to threaten the very underpinnings of homeownership itself.

Needless to say this is not the type of problem we like to talk about in our society For reasons that vary from personal pride to a desire to promote economic stability in our communities business people, lending institutions and government officials have been hesitant to say much about what is now going on in the local economies of several Sunbelt states, including Texas, Oklahoma Louisiana and Colorado We ve always maintained an air of self-reliance and a firm belief that we can handle our economic and social problems ourselves.

The truth is, however, that these problems in our local economies are now overwhelming us, and it is time to call the attention of the Congress to this dilemma while there is still time to mitigate the negative economic impact of this situation which is steadily worsening as we speak here today. Not because we re looking for any sort of federal "bailout," as some would suggest but so that the Members of Congress can take some necessary steps to keep these local zed economic problems, now largely confined to our region of the nation, from growing worse and spreading elsewhere

We don t need to recite for you, Mr. Chairman, how badly many of the local economies in our region have deteriorated, and how many hundreds of thousands of families have already lost their homes as a result of record-high unemployment and business dislocations The Housing Subcommittee has previously approved legislation designed to arrest this growing tide of mortgage foreclosures Moreover, should the measure under consideration today, the "Emergency Housing Assistance Act of 1988," be adopted into law, it would go a long way toward rectifying this problem, as well.

While the initial price tag for this new initiative may seem high at first glance, the proposed half billion dollar appropriation to activate this program is a diminutive sum when compared to the losses now being sustained and the human misery caused by the wave of home mortgage foreclosures in local communities in our region. If this legislation has the desired effect, it will serve as a "bridge loan" program, so to speak, enabling homeowners and lenders to forestall foreclosures and resulting bankruptcies. This will save the federal government significant moneys the life savings of those families affected and will help to stablize real estate values throughout these communities. Once this crisis is over, those assisted will be required to pay these loans back with interest, thereby returning these funds to the federal treasury.

If the $500 million appropriation called for in your bill were divided by the 100,000 homes you believe could have already been saved if your legislation had been enacted into law when first proposed in 1983, Mr. Chairman, that would have in effect provided a loan of only $5,000 to each homeowner.

This $5,000 is a paltry sum relative to the cost of bringing a single home through the foreclosure process, not to mention the subsequent losses sustained by the new, diminished value of the property once it is subjected to a forced sale.

But there are several other attendant aspects to this dilemma, should they remain unaddressed that will cause this entire unfortunate situation to grow even worse. Unless a concerted and coordinated effort is undertaken to develop new policies regarding forebearance and foreclosure under the unique circumstances now prevailing in our region by the plethora of federal agencies and private institutions presently responsible for administering and managing home mortgages, it won t much matter whether the Congress passes this important legislation or not

In fact, as the result of the management practices of these institutions now in place our present situation s already much worse than it need be. The failure of federal agencies federally chartered institutions private mortgage insurers PMI s and others responsible for the development and administration of realtistic, reasonable forebearance and foreclosure policies, new loan underwriting guidelines and the timely and sensible dispos tion of real estate owned (REO) has only served to deepen and prolong this crisis.

It is incredulous to us that America's largest financial institutions can reschedule billions of dollars in loans to entire countries but that those federal agencies responsible for administering our nation s mortgage programs cannot develop a coherent workable policy to restructure a home loan to a laid off oilfield worker in Houma Louisiana. Perhaps this Committee can encourage those respons ble for such activities to offer broadened, specific mortgage refinancing options to potentially troubled homeowners, and pursue the development of a coordinated asset d sposition facility to preclude further random "dumping" of foreclosed properties in our region, which has left these real estate markets in tatters.

To our knowledge, only the Federal Home Loan Bank Board has published any objective criteria and specific instructions for any sort of comprehensive "troubled debt restructuring HUD's "assignment program" is helpful too except that some of the larger servicers of these FHA mortgages sometimes don t cooperate as fully as they might and only observe the "letter of the law" to ensure defaults can t later be blamed on their inaction. The point is that all parties involved in this unfortunate dilemma need to work closely together to alleviate this s tuation, and that federal agencies with responsibility in this area should publish and disseminate as widely as possible the details of programs presently in place to homeowners across our region advising them of what to do <u>when</u> they have financial reversals, not <u>after</u> their mortgages have already become distressed.

Depending upon who you talk to, Ginnie Mae and Fannie Mae either can or can't help out borrowers whose mortgages have been securitized and sold into mortgage pools We have been assured by Fannie Mae that such mortgages <u>can</u> be substituted for in these pools, but regional Fannie Mae officials have told borrowers they <u>can't</u>. We don't need these federal agencies

playing these types of "shell games" with people's financial futures in our region, we need sound policies fairly administered, and we need them quickly.

But perhaps the best single example of this mismanagement of these multi-billion dollar mortgage loan portfolios is the decision of Fannie Mae and PMI companies doing business in our region to effectively "redline prospective homebuyers. While it may seemingly make sense to stop making loans providing "maximum" mortgage financing to homebuyers in areas experiencing economic hard times at first blush, this shortsighted and ill-conceived management decision has only made matters worse, and simply served to put additional performing home loans in our region in these huge mortgage pools unnecessarily at risk. And we re not talking about anyone s social responsibil ty" here, we re ust pointing out that these unrealistic underwriting restrictions and/or total withdrawals from our regional marketplace were poor business decisions in the first place which have unnecessarily jeopardized the vast major ty of mortgages now not classified as "delinquent" or in a "troubled" status

This is not to say that some mortgage financing is not still available to certain "goldplated" prospective homebuyers with 10% downpayments However the underwriting criteria in force is often so restrict ve as to prove unworkable. Items like a single 0-days late" on a charge account in the credit report are enough to disqualify a mortgage applicant And should a mortgage lender approve an applicant for a "maximum" mortgage loan despite this so-called "questionable" creditworthiness, they are subject to being forced to repurchase the mortgage by Fannie Mae. You can imagine the chilling effect this has on the desire of local mortgage lenders to make home loans to even the most clearly qualified and creditworthy applicants.

As a consequence of these and other types of overly restrictive mortgage loan policies thousands of well-qualified prospective homebuyers are literally shut out of the mortgage marketplace altogether This creates a domino effect so to speak, as t impedes the ability of the real estate secto in these local economies to function in an orderly manner Existing homeowners and builders are unable to sell their properties even when they have willing and qualified buyers and are often forced to sell at a loss. Builders resolve this dilemma by not bu lding or simply taking contract construction work, assuming the proposed construction will appraise at a value greater than the builder's actual costs.

Homeowners, on the other hand, bear the brunt of this untenable situation. Not being able to afford to sell their homes for very much less than they actually have invested in them, owners of existing residences don't sell unless they absolutely have to. Often times the "dumping" of foreclosed properties results in their not being able to sell at all, as the appraised value or their property has now fallen tens of thousands of dollars lower than the amount of their mortgage.

We believe that scrapping these "special" restrictions now being imposed by Fannie Mae and other institutions for making owner-occupied home mortgage loans in our region would

greatly assist qualified homebuyers to purchase homes and hasten our return to a more orderly marketplace for buyers and sellers. This makes good economic sense since the decline in values of homes has largely ended, and it would send a positive signal to pr vate mortgage insurers as well We would request that these parties be encouraged to underwrite 95% loan-to-value 15-year mortgages as a first step in neighborhoods where appraisals are no longer declining on the same basis they're written in other markets across America We suggest that many communities across our nation would have their ability to provide homeownership significantly impaired without this "equal access" to mortgage financing.

You gentlemen needn't take our word for the economic problems we are experiencing in our community and state caused by this shortfall of adequate, available mortgage credit New single family construction starts in Louisiana are down from 30,000 three years ago to less than 4,000 today on an annualized basis. Multi-family construction has halted altogether.

Just looking at these numbers, however, doesn't tell the whole story. By themselves, these dramatic declines in housing starts would lead one to believe that the New Orleans economy is suffering a severe depression, and that no one in their right mind would make a mortgage loan in our community.

This goes to prove that numbers can be deceiving. The fact is our economy is on its way back <u>despite</u> our continued worsening downturn in residential construction. Net new employment was up slightly last year in the New Orleans metropolitan area, and has continued to make further gains this spring Our local set of leading economic indicators developed by Dr Timothy Ryan of the University of New Orleans has continued to reg ster gains too, in virtually every important sector of our economy <u>except</u> housing starts.

Improving this vital sector of our economy, which, according to the Massachusetts Institute of Technology's Center for Real Estate Development, directly and ind rectly employs an astonishing 15% of the U.S. workforce, would raise our area s economic prospects further. There is certainly no shortage of prospective homebuyers, we can tell you. Many home builders and remodeling contractors in New Orleans know dozens of prospects they can t secure financing fo either because they don't quite qualify for a first or second mortgage under the rigid "special guidelines in force in our region or because they're literally shellshocked by the erosion of housing values first caused by our initial economic downturn, now being aided and abetted by our regionalized lack of availability of affordable mortgage credit.

Part of our problem, obviously, is that our industry is so diffuse. If we were a single business entity, such as a large auto manufacturer, the symptoms and cure for our ills would be relatively easy to detect. If the prospects for a comeback by the patient were good, we'd have little trouble going to the capital markets for relief.

Ours is a parallel situation. Those responsible for administering capital flows of mortgage finance in our region

are pulling back at the very time we need additional liquidity. We believe that a selective liberalization of these policies would result in significant improvement across the board in the values of residential real estate in our community.

Sometimes, it even seems these institutions are bent on contributing to their own demise. By auctioning property they're able to find out how l ttle real estate can be worth when subject to forced sales. Correspondingly, as a result of this "dumping" of depressed properties, they've managed to establish new, lower values for surrounding real estate through subsequent appraisals. Suddenly, they've now managed to diminish comparable property values backed by perfectly performing mortgage loans, as well.

And the unique financing plans being provided buyers for troubled real estate by these federal institutions is even more ludicrous Three percent downpayments and initial interest rates of 7% are not uncommon. We're told 100% financing is not impossible. Wouldn't it make more sense to end this lunacy by resorting to shallow, temporary subsidies like those contained in this legislation to keep mortgages performing despite homeowners short term financial reversals? The savings in the costs of repossessing properties and in the cessation of this giveaway financing being borne by these federal agencies and paid for by American taxpayers would be enormous.

This is not to say that there aren t some parts of our 1.2-million resident community that aren t truly experiencing real hardships caused by abandoned housing. We have some terrific examples of this kind hardly seen anywhere in America since the 1930's. But we have other neighborhoods too, many where housing prices are stable and even some where values have continued to appreciate modestly over the past three years.

The problem is that those federal and private institutions responsible for meting out mortgage credit in our community can't discern where they can provide "maximum" mortgage credit and mortgage insurance prudently, and where they can't. Their typical recation, then, is not to provide any.

We believe this misapplication (or, rather, non-application) of mortgage credit is unfair to both homeowners and homebuyers in our community. Morover for the reasons previously stated we believe this is a bad business decision, as well eopardizing as it does the great bulk of mortgage loans already made to homeowners which are presently performing in a perfectly satisfactory manner

In conclusion, Mr. Chairman, we regret to inform you that unless these policies now in force in our area promulgated by those federal and private inst tutions responsible fo making adequate and affordable mortgage credit available to homebuyers aren t rethought and reworked we re not going to see any real improvement in this vital sector of our economy for a long time to come And the Congress, through its power to initiate progressive action in the form of measures like the "Emergency Housing Assistance Act of 1988," will be left to pick up the pieces.

STATEMENT OF THE HONORABLE NANCY PELOSI

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

HEARING ON HR 4292, THE EMERGENCY

HOUSING ASSISTANCE ACT OF 1988

MAY 24, 1988

MR. CHAIRMAN: TODAY'S HEARING ON H.R. 4292 WILL HIGHLIGHT THE SIGNIFICANT CONTRIBUTION THAT PREVENTION-ORIENTED APPROACHES CAN MAKE. WE TOO RARELY SEE ACTION IN CONGRESS ON INITIATIVES THAT ARE DESIGNED TO STOP PROBLEMS BEFORE THEY BECOME MAJOR CRISES.

MR. CHAIRMAN, I WANT TO COMMEND YOU FOR YOUR LEADERSHIP IN THIS REGARD. H.R. 4292, YOUR LEGISLATION, WOULD HELP TO PREVENT MORE FAMILIES FROM BECOMING HOMELESS, THEREBY REDUCING THE FINANCIAL COSTS OF HOMELESSNESS TO SOCIETY, AS WELL AS REDUCING THE HUMAN COSTS TO INDIVIDUALS AND FAMILIES WHO WOULD OTHERWISE SUFFER THE LOSS OF THEIR HOMES.

H.R. 4292 WOULD PROVIDE TEMPORARY FINANCIAL ASSISTANCE FOR CERTAIN HOMEOWNERS WHO ARE FACED WITH THE THREAT OF FORECLOSURE DUE TO INVOLUNTARY UMEMPLOYMENT OR SUBSTANTIAL LOSS OF INCOME. I BELIEVE THAT THIS KIND OF PROGRAM WILL HELP TO REDUCE THE RATE OF HOMELESSNESS. IF WE CAN PREVENT PEOPLE FROM LOSING THEIR HOMES, WE CAN REDUCE THE NEED FOR THE WIDE ARRAY OF SOCIAL SERVICES THE HOMELESS POPULATION REQUIRES, BUT DOES NOT OFTEN RECEIVE, IN ORDER TO RE-ESTABLISH THEMSELVES. AT THE SAME TIME, WE CAN REDUCE THE SUFFERING AND TRAUMA WHICH WOULD BE CAUSED BY IMPENDING HOMELESSNESS.

I AM SURE THAT TODAY'S WITNESSES HAVE SIGNIFICANT INSIGHT TO OFFER THE MEMBERS OF THIS COMMITTEE ON WAYS TO PREVENT HOMELESSNESS. I LOOK FORWARD TO THEIR TESTIMONY. THANK YOU.

3900 Wisconsin Avenue, NW
Washington, DC 20016-2899
202 537 7120

William R. Maloni
Senior Vice President for
Government Relations

MAY 24 1988

FannieMae

May 23, 1988

The Honorable Henry B. Gonzalez
Chairman
House Banking Subcommittee on
Housing & Community Development
2132 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Gonzalez:

Based on our ongoing conversations with your staff regarding the role of Fannie Mae in both the area of home ownership counseling and foreclosed property sales ("real estate owned" or "REO"), I thought an update of Fannie Mae's activities was appropriate at this time.

Our record in these areas is a very strong one, and demonstrates the very high priority we place on balancing responsibility to local economies as well as efficiency in addressing the REO issue. Fannie Mae has a substantial economic stake in any region where foreclosures reach significant levels, and the situation in the "energy belt" provides only the most recent example. Our continued presence in that region reflects the fundamental commitment to serve all regions of the country throughout their individual economic cycles.

When the Southwest experienced a severe economic downturn in 1986, we were one of the few companies that remained in that market. In 1986 and 1987, Fannie Mae purchased approximately $7 billion in mortgages in Texas, assisting over 107,000 Texas home buyers and homeowners in financing their mortgages. We also purchased $136 million of mortgage revenue bonds in Texas during 1987, which will provide financing for approximately 1,720 predominantly first-time home buyers.

We have not lost faith in these markets, and we believe that our support over the last two or three tough years will stand us and these areas in good stead when recovery begins.

Our stake in the energy belt and its future makes us acutely sensitive to the benefits of managing delinquencies and foreclosures in a way that averts **further negative pressures** on local economies. Fannie Mae believes that stabilizing communities must receive the highest priority in fashioning an efficient strategy for dealing with foreclosures, and we have developed a number of policies to achieve this goal.

First, in the acquisition and sale of foreclosed properties, Fannie Mae is very sensitive to the existing housing market conditions. We take great pains to avoid depressed values that accompany home resales at deep discounts due to unrealistic marketing time or property deterioration. One of our most important policies is to preserve property and neighborhood values by pursuing an aggressive repair and renovation program for foreclosed homes. Frequently, areas with large numbers of foreclosures have experienced an oversupply of housing, as well as a severe economic slowdown. Substantial value declines--as much as 25 to 40 percent in Houston--will inevitably surface in the market. **Our intensive program to maintain and repair our REO properties is designed to produce the fairest resale prices and offer terms which will attract owner-occupants.**

Specifically in Houston, Alaska and Oklahoma City, Fannie Mae has opened offices to provide timely and effective management of the acquisition and disposition of properties. We have also tried to encourage REO purchases through special below-market financing and mortgage assumption features. Recently, we have advertised special incentives to purchasers of selected foreclosed homes in the Dallas-Ft. Worth and New Orleans area as well as the state of Oklahoma. (See attachment: Fannie Mae News Release).

Another important strategy involves our very strong effort to identify potential problem loans <u>before default occurs</u>. In these cases, Fannie Mae takes the initiative to offer loan "modifications" that benefit the home owner by maximizing the chances for continuing good performance, <u>before</u> the borrower falls seriously behind.

On a closely related matter, **Fannie Mae has been in the vanguard in urging our lenders to forbear in the case of delinquent home owners.** Early on, we initiated standards to encourage lenders to work with borrowers in distressed market areas--such as Houston, Alaska, and areas of Oklahoma, Colorado, and Louisiana--to modify loans, to avoid default and foreclosure.

The Honorable Henry B. Gonzalez
May 23, 1988
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We also instruct our lenders to consider any reasonable request for loan modification that a borrower presents. In cases of special hardship, we will provide modifications that permit the borrower to remain in the home while paying a reduced interest rate.

Other types of **special relief provisions to help qualified mortgagors who are delinquent or who may become delinquent because of circumstances beyond their control** include:

- Special forbearance to reduce or suspend payments for specified periods in cases involving illness, death, natural disasters, unavoidable reductions in income and other circumstances beyond the control of the mortgagor.

- Temporary indulgence in cases where sale or rental of the property is pending, insurance settlement is being negotiated, agency assistance is being arranges, or other circumstances where additional time is needed.

- Military indulgence under provisions of the Soldier's and Sailor's Relief Act of 1940.

- Modification that may provide for changes in the terms of the mortgage to permit extension of time, reamortization, or other justifiable relief.

In our experience, such work-outs are the best way to minimize losses, and are far preferable to foreclosure. We believe as well that this balanced approach is appropriate to minimize hardship for individual borrowers. And finally, in view of the widespread economic distress and loss of jobs in some regions in Texas and other parts of the "energy belt," we believe a balanced approach is preferable to reduce collateral deterioration in an area's economy. Although this program has been expensive for us in the short run, we believe it will eventually prove to be quite beneficial for all parties--the homeowner, the lender, Fannie Mae, and the local housing markets.

Another integral part of our strategy to prevent default and foreclosure includes requiring our loan servicers to offer counseling procedures to advise borrowers on avoiding and curing delinquencies. Our servicers must be familiar with the terms of our special provisions, government programs that can assist mortgagors in resolving delinquencies and counseling agencies that might help mortgagors with debt management.

In this vein, **Fannie Mae has been working very closely with HOPE (Home Ownership Protective Effort), a program that provides a full range of counseling and support services to unemployed and underemployed families who are**

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in danger of losing their homes through foreclosure. HOPE's clients are referred by (and their fees paid by) mortgage lenders, utility companies, and mortgage investors like Fannie Mae. No charge is made to the clients.

At present, our role in the HOPE program is manifold. We have signed a contract for client referrals to HOPE's seven franchises in Pennsylvania, Ohio and Texas. We have made a $50,000 commitment to help finance the new HOPE franchises in Texas. The Fannie Mae foundation has made a $25,000 philanthropic donation to Housing Opportunities, Inc., for it Revolving Loan Fund for needy families in Texas. Lastly, we are continuing to make contacts on HOPE's behalf with other major mortgage investors and agencies.

Another very important effort to preserve and stabilize communities experiencing high foreclosures includes **linking REO sales to our general efforts to work with state and local housing finance agencies to reduce the cost of mortgages financed with tax-exempt bonds.** This prgram generally includes private placement purchase of tax-exempt mortgage revenue bonds, which reduces the agencies' issuing costs, thus allowing them to pass along the savings to first-time home buyers.

Through this program, **the Houston Housing Finance Corporation and Fannie Mae recently announced a $50 million mortgage revenue bond issue to provide low interest rate mortgage financing for 1,000 Houston families. For the first time in any mortgage revenue bond program, a portion of the bond issued will be set aside for financing of foreclosed homes in the area.**

Recognizing that REO held by Fannie Mae, other financial institutions, and government agencies represents a potentially valuable source of affordable housing for lower-income home buyers, we have combined both the below-market financing offered by the mortgage revenue bond and the sale of these REO properties. Specifically, $16 million of the aggregate $50 million will be dedicated to the purchase of foreclosed homes. (See attachment: Rep. Mike Andrews Press Release).

We also are exploring other ways to use the valuable resource of the REO property. In a number of cities in which we operate community lending programs, we are encouraging the sale of some of our REO to public housing authorities for use as scattered site public housing.

While giving special attention to the problems of borrowers in distressed market areas, **Fannie Mae also has expanded its efforts to aid the growing number of**

lower-income families faced with a shrinking supply of adequate, affordable housing. To address this situation, **Fannie Mae in 1987 created the Office of Low- and Moderate-Income Housing to increase housing opportunities for our neediest citizens.**

Fannie Mae specifically designed this office to create, support and preserve affordable housing. Since its inception, this new Fannie Mae unit has developed a basic repertoire of programs. Each of Fannie Mae's programs attacks the housing problems of low- to moderate-income families in a different way, tailoring it to suit local needs. (See attachment: Fannie Mae Opens the Door, authored by Lynne Ballew, Mortgage Banking, May 1988; "Fannie Mae becomes a leader in mortgages for low-end buyers," Chicago Tribune, May 20, 1988).

In each of the Fannie Mae programs, several local players assume significant roles. Private nonprofit corporations and community groups develop the housing and work with the families that will occupy it. State, local and federal agencies act as equity funders, guarantors, and secondary lenders. Lenders provide construction, permanent, and bridge financing as well as equity for low-income housing initiatives.

We are also actively expanding our community lending programs, in which we provide primary mortgage financing, in connection with subsidized secondary financing provided by state, city or nonprofit organization. Through these programs, low- and moderate-income home buyers, who would otherwise be priced out of the market, can obtain mortgages. We emphasize the rehabilitation of vacant and abandoned houses--often VA and FHA foreclosures--in targeted neighborhoods. We have committed nearly $100 million to these programs since the beginning of 1987.

I hope you find this information helpful. If I can be of any further assistance, please call.

Sincerely,

Bill Malone

WRM/pa

Enclosures

Chicago Tribune 5-20-88 Fannie Mae Mortgage

Fannie Mae becomes a leader in mortgages for low-end buyers

Lew Sichelman

Criticized in the late 1970s for abandoning its roots, the nation's largest single supplier of money for home loans quietly has become a leader in the effort to house low- and moderate-income families.

Within the last two years, the Federal National Mortgage Association, better known as Fannie Mae, has provided $1.6 billion in mortgage money, enough to support 35,000 households of people who otherwise would have been unable to afford their present accommodations.

Part of Fannie Mae's success rests in the fact that others, too, are much more active these days.

"A lot of what we're doing plays off what state and local housing authorities, cities and non-profit sponsors are doing," said Martin Levine, the company's vice president for low- and moderate-income housing. "They are much more active, much more creative, and that has made it easier for us to be more active."

But another part of Fannie Mae's increased focus also rests in the personal desire of its chairman, David Maxwell, to serve as a catalyst in the growing effort to aid low-end buyers and renters.

"We hope that our participation in these ventures will demonstrate that a worthwhile social investment can be a good financial investment as well," Maxwell said.

Maxwell, who also is vice chairman of the National Housing Task Force, a group formed by Sen. Alan Cranston (D., Calif.) and Alfonse D'Amato (R., N.Y.) to help create a new national housing policy, was fairly new to Fannie Mae when it was censured most heavily for ignoring low- and moderate-income housing.

That was during the Carter administration, and the attack was led by then Department of Housing and Urban Development Secretary Patricia Harris and Sen. William Proxmire (D., Wis.).

In those days, however, the federally chartered but stockholder-owned company was operating much like other financial institutions whose activity was limited to the single business of residential finance.

"We were under water and sinking fast," Levine said. "We were borrowing short and lending long, and we were at grave financial risk."

Maxwell's first order of business, then, was to set his ship back on course, and the plight of low- and moderate-income families, understandably, had to take a back seat.

"Our first obligation is to operate at a profit, so we had to restructure in order to be much less sensitive to interest rates," Levine said. "That undertaking chewed up an awful lot of the early 1980s. And it wasn't until the mid '80s that we were back on our feet."

Since then, Fannie Mae has begun an increasing number of initiatives to improve the lot of low- and moderate-income families.

Created 50 years ago to provide mortgage funds for those families, the company facilitates the flow of money from investors to local lenders. Operating in the secondary mortgage market, Fannie Mae buys loans from lenders so they have a constant supply of funds to lend to home buyers.

The company and others like it also bring a certain degree of efficiency to the mortgage market, which means not only a greater supply of funds but also somewhat lower rates.

In its five decades, Fannie Mae has been involved, in one way or another, in about $400 billion worth of mortgages. That's enough to have helped eight million families find homes.

The average size loan in its portfolio is $46,000. And although the average size loan purchased last year was up to $70,000, 25 percent of the loans it bought were under $40,000.

But even loans that small often are beyond the reach of low- and moderate-income families. So the company has targeted several programs directly toward them.

One of the most meaningful moves was to create Levine's Office of Low and Moderate-Income Housing Initiatives, which is responsible for managing programs initially undertaken elsewhere in the company.

Here, in the interest of promoting the cause, is a summary of other Fannie Mae initiatives that are up and running now:

● In the public finance sector, Fannie Mae is buying the tax-exempt mortgage revenue bonds issued by state and local agencies. In so doing, the company is reducing the agencies' borrowing costs, a savings passed on to the ultimate borrower.

Levine said that Fannie Mae's involvement has meant a savings of a quarter to a half percent in interest rates for 31,000 households, as well as a 2 percent to 3 percent savings in the amount of cash they needed at settlement to close their loans.

Fannie Mae also is issuing securities backed by mortgages funded from the proceeds of tax-exempt bonds. This enhances the credit of the issuing agencies, enabling them to gain a higher rating for their bonds, so they can lend the proceeds at lower rates.

● In the community lending arena, Fannie Mae is buying individual loans that are partially subsidized by state or local housing authorities, or by not-for-profit organizations.

Targeted to people with incomes at or below 80 percent of the area's median, this program "takes the risk off the shoulders of local lenders," Levine explained.

● Fannie Mae also is the largest single corporate investor involved in the under-utilized rental housing tax credit program authorized by Congress in the Tax Reform Act of 1986.

The company has committed to invest $40 million in rental projects. That's enough to build or rehabilitate 2,200 units, and Levine said that the number of units backed by his company "is certain to at least double" by the end of the year.

Low-income-housing tax credits "are a natural investment" for a housing-oriented company such as Fannie Mae. But they can be just as good an investment for any other type of company.

"We're trying to demonstrate to other corporations that it makes sense," Levine said of the cumbersome, heavily regulated credit. "It is an appropriate investment with a substantial return."

Lew Sichelman is a syndicated housing columnist based in Washington, D.C.

The new programs bring homeownership within the reach of families earning less than 80 percent of the median income for their areas, and the risks are reasonable.

Fannie Mae Opens the Door

—— Lynne Ballew ——

In partnership with states, localities, nonprofit organizations and other corporations, Fannie Mae is developing a series of community lending programs for low-income homebuyers. In the last year, the corporation has helped start such programs in a dozen cities, for a total commitment of nearly $100 million in single-family loan purchases.

Through its new office of low- and moderate-income housing, Fannie Mae is carrying out a variety of activities, including the purchase of tax-exempt mortgage revenue bonds and rental housing equity investments that enable use of the low-income housing tax credit created by the Tax Reform Act of 1986. The program closest to Fannie Mae's customary business, however, is the single-family loan purchase program—or community lending—which brings homeownership within the reach of families earning less than 80 percent of the median income for their areas, and which creates a secondary market for these loans for the first time.

Here is how a typical community lending program works:

- *Producing the housing*—Stock in community lending programs may be new or existing, may be located in stable neighborhoods or in neighborhoods targeted for revitalization, and may be produced by for-profit or nonprofit housing developers. Usually, a nonprofit developer—most often a community development corporation, or CDC—will find vacant or abandoned properties, then buy and rehabilitate them, either using its own development team or in joint venture with for-profit developers. Money for acquisition, construction or rehabilitation can be provided by a lender, a public agency or private grants.

Fannie Mae encourages use of foreclosed properties—its own, HUD's, VA's and other lenders'—as the housing supply for these programs. The reclamation of concentrated groups of foreclosed houses can enhance neighborhood stability in a striking way, and bulk sales can make the properties available at attractive prices.

- *Finding the buyer*—Low- to moderate-income families work with community groups, counseling agencies or neighborhood nonprofits to find and purchase homes for sale at affordable prices, to help package their applications for home financing and to receive prepurchase counseling and homeownership training. Often these groups will work with the CDCs to match up properties with qualified homebuyers even before rehabilitation has been completed.
- *Putting the financing package together*—A typical financing package has three components. First comes a down payment from the borrower—usually five percent of the purchase price, but it can be lower for families whose incomes are below 50 percent of median income for the area. Next comes a first mortgage, originated and serviced by a Fannie Mae-approved lender, for up to 80 percent of the value of the property. The low loan-to-value ratio means that no mortgage insurance is required. Many community lending efforts elsewhere are finding mortgage insurance for their borrowers hard to get. First mortgages are conventional, 30-year, fixed-rate, level-payment, market-rate loans—in a word, standardized and easy to originate.

loans they produce especially attractive to Fannie Mae or to any mortgage investor. Among them:

- *Debt ratio*—The standard Fannie Mae housing expense and obligations-to-income ratios of 28 percent and 36 percent apply in community lending programs. These ratios may be exceeded (and in fact were exceeded in more than 15 percent of all the loans Fannie Mae purchased last year) when borrowers have consistently and successfully devoted greater portions of their income to rent and shown an ability to accumulate savings. In many cities where rents are high, homeownership actually decreases a lower-income family's monthly housing expense, even before tax benefits are taken into consideration.
- *Creditworthiness*—Lower-income borrowers, just like all borrowers whose mortgages are sold on the secondary market, must demonstrate a consistent willingness and ability to handle debt. More often than not, however, their creditworthiness is not immediately apparent from a credit report. Instead, lenders must make an extra effort to satisfy themselves—by obtaining letters from landlords, utility companies or former creditors—that the borrower is a good risk.
- *Prepurchase counseling*—Borrowers are normally required to participate in some form of prepurchase counseling or homeownership training, both of which appear to be highly correlated with successful homeownership and low delinquency ratios.
- *Layers of support*—By the time a borrower comes to a lender for a first mortgage application, he or she has already been sponsored, screened, and supported both by a community or neighborhood group and by the agency that will be providing the second mortgage. This is a very effective filtering process, as well as a good support network. Every loan closed, every new homeowner, represents a victory for the public/private partnership.
- *Product simplicity*—A standard first mortgage at market rates with a low loan-to-value ratio is, generically, a desirable and relatively risk-free purchase for any mortgage investor. The loans Fannie Mae is purchasing now in its community lending programs should, when seasoned, prove ideal for pooling into the company's mortgage-backed securities.

Many lenders are finding these programs a particularly attractive way to make contributions to the revitalization of their cities and towns, or to fulfill their obligations under the Community Reinvestment Act. The simplicity of Fannie Mae's product, the fact that Fannie Mae can help tailor its program to suit the needs of the lender or the locality, and the assurance of a takeout for community lending mortgages have encouraged many lenders to begin originating and servicing these loans for sale to Fannie Mae. Some lenders have gone so far as to provide loans to housing developers on favorable terms for acquisition, construction and rehabilitation.

Participation begins when lenders reach any Fannie Mae regional office or the office of low- and moderate income housing in Fannie Mae's headquarters in Washington. When the program details have been worked out, a letter from Fannie Mae will give the lender the go-ahead. In most cases, no official commitment is issued. Instead, the lender can simply continue delivering loans as long as they fit program criteria. There is no minimum loan size for community lending or for any Fannie Mae program, nor is there any minimum number of loans that must be delivered for a program to remain approved. Loans, since they are market rate, are purchased at par.

The most difficult thing about these new initiatives is that they all demand committed partnerships among community groups, public and private agencies, nonprofits, lenders and Fannie Mae. Because more players are involved, the process of getting a program up and running tends inevitably to be slower, more labor-intensive and more liable to snags than customary business. But the extra time and effort put forth by all partners will just as inevitably reap greater rewards for the families they serve. □

Lynne Ballew is Fannie Mae's director of low- and moderate-income housing. She is responsible for helping to design and manage Fannie Mae's activities to promote housing affordability for lower-income people. She has worked for Fannie Mae since 1984.

The most difficult thing about these new initiatives is that they all demand committed partnerships among community groups, public and private agencies, nonprofits and lenders.

Finally comes a second mortgage, normally from a state or local housing department, to fill the gap between the down payment and the first mortgage. Because Fannie Mae provides financing for up to 80 percent of the value of the home, limited public funds earmarked for homeownership programs can be spread as cost-effectively as possible to create the greatest number of homeowners.

These "soft seconds" are often completely deferred, carry no, or very low, interest rates, and may be forgiven by a certain amount for each year the lower-income family remains in the house. In addition, a portion of the soft second may be unsecured and put in the form of a note or grant to cover closing costs, rehab costs not covered in the sales price or to close the gap between a small down payment and the required 5 percent equity. Although Federal Community Development Block Grant funds are the most common source of such mortgages, they can also be provided by lenders, builders, foundations or nonprofit corporations.

Once the borrower's application has been approved, and closing has been scheduled, the lender takes out a commitment of 10 to 90 days and delivers the loan to Fannie Mae through the negotiated transactions unit of the regional office with which it normally does business. Fannie Mae charges no commitment fees and imposes no requirements concerning fees or points charged to the borrower, although lenders usually keep these to a minimum.

After sale of the mortgage, the lender services them aggressively—often even more aggressively than the Fannie Mae Servicing Guide requires. If, despite the lender's best efforts, default is inevitable (because of loss of employment, for example), transfer of title to another qualified lower-income homebuyer through assumption is preferable to foreclosure. Since in most areas qualified lower-income families greatly outnumber available homes, such assumptions should not be difficult to arrange.

What about risk? Fannie Mae's community lending programs take aim at the three most common impediments to homeownership for lower-income families: down payments, subordinate financing and the "neighborhood requirement" saying that to be eligible for maximum financing properties must be in neighborhoods where values are stable or improving. To balance the flexibility and creativity that community lending demands, other features of these programs serve to mitigate their risk and to render the

News Release

3900 Wisconsin Avenue, NW
Washington, DC 20016-2899

Contact: Gene Eisman
(202) 537-6673

FannieMae

Number: 5860

Date: May 5, 1988

Fannie Mae Offers $1,000 Discount to Buyers of Foreclosed Homes in Dallas - Fort Worth Area

WASHINGTON, DC -- Fannie Mae (Federal National Mortgage Association - FNM/NYSE) today announced that it will offer a special $1,000 discount to purchasers of selected foreclosed homes it owns in the Dallas - Ft. Worth area. The offer is to owner-occupants and investors who sign a purchase contract between May 8 and June 3, and close the loan by July 18, 1988.

The discount on selected properties is in addition to the below-market financing and mortgage assumption features already available on all Fannie Mae foreclosed properties in the Dallas - Ft. Worth Metroplex area.

(more)

Page Two
Dallas - Ft. Worth

These features include:

o A reduced interest rate of 3 percent below the market rate for the first year; 2 percent below the market rate for the second year; and 1 percent for the third year. The buyer will pay the market interest rate for the fourth through the thirtieth years of the mortgage. The current market interest rate is announced weekly by Fannie Mae.

o 3 percent down payments on homes with a purchase price of up to $50,000; otherwise 3 percent of the first $25,000 and 5 percent of the remaining amount, for owner-occupants.

o 15 percent down payments for investors.

o One-time assumability of the mortgage, subject to approval by Fannie Mae. No assumption will be permitted during the first 12 months, and any assumption must take place within 48 months of the mortgage origination date.

(more)

"This financing program, available only when purchasing a Fannie Mae foreclosed home, makes an excellent value for home buyers even better," said Judy Dedmon, senior vice president of Fannie Mae's Southwestern Regional Office in Dallas. "Combined with today's low mortgage interest rates and the attractive prices on these homes, the financing offered by Fannie Mae places homeownership within reach of more families."

Dedmon explained how the $1,000 discount on selected properties works:

"Advertised Fannie Mae foreclosed homes in the Dallas - Ft. Worth area are priced at or below current market value. The prospective buyer makes an offer on the property through a local real estate agent. Once Fannie Mae accepts that offer, the company deducts $1,000 from the price of the selected properties. The offer is valid only on contracts signed between May 8 and June 3, and closed by July 18, 1988."

Home buyers and investors can obtain a listing of Fannie Mae properties for sale in any part of the state -- or any area of the country -- by calling Fannie Mae's toll-free telephone number, 1-800-553-4636, Monday through Friday from 9:00 a.m. until 6:00 p.m., Central Daylight Time. Properties will also be listed in advertisements appearing in major daily newspapers.

(more)

Fannie Mae, a congressionally chartered, shareholder-owned company is the largest investor in American home mortgages.

# # #

U.S. CONGRESSMAN

Mike Andrews

NEWS RELEASE

FOR IMMEDIATE RELEASE

25th Congressional District, Texas
322 Cannon Bldg. • Washington, D.C. 20515 • Phone: (202) 225-7508

CONTACT: Deborah Matthews

April 21, 1988

**MORTGAGE REVENUE BONDS
USED TO RESOLVE
EXTENSIVE FORECLOSURE PROBLEM**

(WASHINGTON, D.C.) -- U.S. Representative Mike Andrews announced a new use of mortgage revenue bonds by Fannie Mae (Federal National Mortgage Association) today. A total of $50 million in mortgage revenue bonds will be issued through the Houston Housing Finance Corporation to provide low interest rate mortgage financing for some 1,000 Houston families.

"This new program being offered by Fannie Mae along with its low interest rate will be a tremendous boost to Houston's severe housing problem. For hundreds of Houstonians it allows them to realize their dreams by purchasing a home. For the Houston economy it means clearing hundreds of homes off the foreclosure rolls," said Congressman Andrews.

In an attempt to resolve the problem of widespread home foreclosures, $16 million of the $50 million mortgage revenue bond proceeds will be dedicated for the purchase of foreclosed homes at an interest rate of 8.125 percent. The properties are currently owned by Fannie Mae, FHA, VA, or other investors including banks and savings and loans.

The home foreclosure problem is especially critical in Texas. For example, of all of the foreclosures made by the Veteran's Administration, one third have been made in South Texas.

"As in the early 1980's when foreclosures in states in the frostbelt placed a great strain on national housing programs, the troubled economy in Texas now requires additional federal resources," Congressman Andrews stated.

With the $16 million being dedicated by Fannie Mae for the purchase of foreclosed homes, experts predict the foreclosure inventory in Houston will be reduced by hundreds of properties. In turn, this will reduce such federal expenses as the $18 a day that the VA spends for every foreclosed property that remains unsold.

The remainder of $50 million, $34 million, will be used to finance the purchase of non-foreclosed homes within the corporate limits of Houston by first-time home buyers. The interest rate will be 8.625 percent.

"Fannie Mae's purchase of these Houston Housing Finance Corporation bonds is an example of the company's strong commitment to increasing homeownership opportunities for low- and moderate-income families," said Martin D. Levine, Fannie Mae's vice president for low- and moderate-income housing. "The set-aside for the purchase of foreclosed properties also demonstrates our commitment to assist Houston's economy by placing new families in these unoccupied properties and helping restore the city's property tax base."

The low interest mortgage money is a part of the tax-exempt mortgage revenue bond program that is scheduled to expire at the end of this year. The Ways and Means Committee, on which Andrews serves, will be considering legislation to extend the program another four years. Andrews is a co-sponsor of legislation, H.R. 2640, which has the support of a majority of Ways and Means members. The program enjoys beneficial tax treatment as the interest on the bonds is tax-exempt.

-more-

FANNIE MAE BONDS
ADD -2-2-2-2

The MRB program offers below market interest rates so that low and moderate income families can afford to buy a home. The average income of households served by this program is $26,700. In Texas, more than 13,000 families have participated in the MRB program since 1980. Nationwide, MRB programs of State Housing Finance Agencies have financed more than one million existing homes and 700,000 new homes, including more than 900,000 home purchases for first-time homebuyers over the last decade.

"The bond issuance for real estate owned properties is a creative use of the mortgage revenue bond program and it aggressively responds to the severe problem of home foreclosures in Houston. This innovative response further underscores the need to extend the mortgage revenue bond legislation this year," Congressman Andrews said.

"For the first time, mortgage revenue bonds will be used to address the severe foreclosure problem in the Southwest," Andrews said.

Fannie Mae, which is based in Washington, is a congressionally chartered, shareholder-owned company. It is the nation's largest investor in American home mortgages.

There are income and sales price restrictions on the use of the bond proceeds, and only owner-occupants are eligible. Properties must be located within the corporate boundary of Houston.

Congressman Andrews was elected to the U.S. House of Representatives in 1982 and is a member of the House Ways and Means Committee, which has jurisdiction over federal tax legislation, trade issues, Social Security, Medicare, unemployment and welfare policy. He represents the 25th District of Texas which includes most of southern Houston as well as the cities of Deer Park, La Porte, South Houston, Pasadena, and Seabrook.

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Houston Housing Finance Corporation
Single Family Mortgage Revenue Bonds
Fact Sheet

* Fannie Mae (the Federal National Mortgage Association) has purchased $50 million in mortgage revenue bonds issued by the Houston Housing Finance Corporation to provide below-market mortgage financing for some 1000 families who are predominately first-time homebuyers.

* $34 million of the bond proceeds will be immediately available through part cipating lenders for first-time home buyers at a mortgage rate of 8.625 percent.

* $16 million will be specifically targeted for buyers of real-estate-owned (REO) properties in Houston at a mortgage rate of 8.125 percent. This money is immediately available for buyers of REO properties of Fannie Mae, FHA, VA, FSLIC, the Houston Housing Finance Corporation, the participating lenders and other institutions.

* Home buyers will pay a minimum of 1 point.

* The participating lenders who will be originating loans with the bond proceeds are: Commonwealth Mortgage Comapny of America, North American Mortgage Company, and Judson W. Robinson and Sons, Inc.

The maximum sale prices for new construction are $110,440 in economically-depressed target areas of the city and $90,360 in all other areas.

* The maximum sales prices for existing housing are $91,410 in the arget areas and $74,790 in all other areas of the city.

* The maximum family incomes to participate in the program are $55,720 in the special target areas and $45,770 in all other areas of the city.

* First-time home buyers interested in purchasing REO propert es should call a Houston real estate agent. Home buyers spec fically interested in Fannie Mae-owned properties may call 1-800-553- 636 or any licensed real estate broker within the city of Houston.

* This purchase of bonds from the Houston Housing Finance Corporation is the second such purchase by Fannie Mae during the past 12 months. In April of 1987, Fannie Mae purchased $50 million in bonds, providing mortgages at an interest rate of 7.625 percent. All these funds have already been utilized.

(Information provided by Federal National Mortgage Association)

REALTOR®

NATIONAL ASSOCIATION OF REALTORS®

Nestor R. Weigand, Jr., President
William D. North, Executive Vice President

MAY 27 1988

Stephen D. Driesler, Senior Vice President, Government Affairs
Gil Thurm, Vice President & Legislative Counsel, Government Relations

777 14th Street, N.W., Washington, D.C. 20005-3271
Telephone 202 383 1074

May 24, 1988

The Honorable Henry B. Gonzalez
Chairman
Subcommittee on Housing and Community Development and
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
2129 Rayburn Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the NATIONAL ASSOCIATION OF REALTORS® I would like to thank you for this opportunity to submit a statement for the record on H.R. 4292, the "Emergency Housing Assistance Act of 1988".

The NATIONAL ASSOCIATION OF REALTORS® has long supported efforts that facilitate an individual's or family's ability to purchase a home and maintain that purchase. We applaud the Subcommittee's interest in and pursuit of that goal. The members of our Association have not had the opportunity to review and approve policy pertaining to this particular legislative proposal. We will, however, be happy to bring it to their attention for consideration at our next meetings, which will be held in November, 1988.

This statement details several of the key questions and concerns that our members will likely raise with this legislation.

- Economic Environment - Is this legislative remedy warranted by the present national economic environment?

- Appropriate Solutions - Does this legislative solution fulfill a function that is not met by existing programs offered by lenders, the Federal agencies, or state and local governments?

- Budgetary and Impact - Will the authorization level indicated in the bill be adequate to cover the costs of operating this program successfully?

Economic Environment

As is generally the case, mortgage delinquencies and defaults — the problems that this legislation is aimed at addressing — are largely attributable to declines or cessations of borrower income and/or the advent of a negative equity position. Historically, foreclosure rates generally increase during times of economic stress and decline in a strengthening economy. A cursory review of the past ten years certainly reflects this pattern. Negative equity positions, caused by a variety of factors, including disinflation and high interest rates actually produce a disincentive for a homeowner to repay his or her mortgage loan. This trend was especially true in the recessionary period of the early 1980's when the prime rate topped 20 percent. It was also true in years of disinflation following that recession when housing values declined precipitously.

In the last few years, however, low inflation and low interest rates have stabilized the economy and the national housing market. Although we would characterize the national economy as neither boom nor bust, we believe that it is certainly stronger and more sustaining than the previous economic environment in which substantial borrower delinquencies and foreclosures were experienced. This is not to ignore or overlook that certain regions of the country are undergoing sectoral adjustment and experiencing serious economic difficulties which are inconsistent or deviate from the national trend. In these locales, the rate of mortgage delinquencies and defaults has increased rather than decreased. Based upon the varying degree of economic conditions and the factors underlying the difficulties in certain sectors, we believe that a national legislative remedy may be premature and too broad in scope. The Subcommittee needs to further investigate remedies that can be applied at the regional, state and local levels to specifically address the needs of those particular housing markets.

Appropriate Solutions

The NATIONAL ASSOCIATION OF REALTORS® strongly supports the efforts of the Federal agencies, mortgage lenders, and the secondary mortgage market institutions to forebear, to the extent possible, on delinquent mortgage loans. Of course, we recognize that there are situations in which foreclosure is the only acceptable alternative, particularly as the factors that cause economic distress within a region may persist beyond the time frame for assistance envisioned by this legislation. We believe that Congress must also be concerned with the long-term safety and soundness of the institutional lender. In such instances mortgage lenders should be permittad to foreclose swiftly, effectively and as painlessly as possible for the borrower. However, we believe that a comprehensive mortgage lending policy should include generous forbearance practices.

As the members of the Subcommittee are aware, the Congress and the Federal agencies have long promoted liberal forbearance policies. As most recently pursued, the Competitive Equality Banking Act (CEBA), enacted last year, established additional requirements to promote lender forbearance. The Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC) both have implemented forbearance requirements upon the loans they fund.

Budgetary Impact

The legislation proposes a $500 million authorization for a revolving fund to cover the costs of operating this program. The NATIONAL ASSOCIATION OF REALTORS® respectfully recommends that the Subcommittee fully evaluate the expected need for this program, and what the true cost of meeting that need could potentially be. We note, for example, that the legislative summary references mortgage delinquency rates as compiled by the Federal Home Loan Bank System. While those statistics may indeed be accurate, they do not reflect the actual number of potential recipients within those regions who could qualify for such a program. Therefore, the Subcommittee needs to evaluate whether a $500 million authorization will be sufficient, or whether additional funding may be necessary. Moreover, the Subcommittee may wish to evaluate whether, in the present economic environment, it should provide a potentially open-ended line of assistance for this proposed program.

Additionally, we believe that the Subcommittee should fully investigate how such a mortgage assistance program will affect other aspects of the mortgage finance system: Will mortgage lenders respond to such a program by tightening their credit underwriting requirements or raising the price of mortgages - thereby cutting off sources of mortgage finance for the very people that this legislative proposal is aimed at helping? This is a potentially serious consideration that we believe warrants further consideration by the Subcommittee.

The Subcommittee should make especially certain that the potential costs of this proposed assistance program, which the legislation envisions being performed by the Federal Housing Administration (FHA), should not draw upon, or in any way affect, the FHA mortgage insurance program which is a viable, self-sufficient program. Our association would oppose any effort to draw FHA mortgage insurance program funds for purposes outside the program.

Finally, Mr. Chairman, I would like to thank you and the members of your Subcommittee once again for the opportunity to comment upon the provisions of H.R. 4292, and the goal of assisting homeowners maintain their mortgage payments during difficult economic periods. Please feel free to contact our offices again if the NATIONAL ASSOCIATION OF REALTORS® may provide any additional information.

Sincerely,

Nestor R. Weigand, Jr.
President

MAY 2 7 1988

Credit Union National Association, Inc.

805 15th Street, NW, Suite 300, Washington, DC 20005-2207, 202-628-CUNA

May 25, 1988

The Honorable Henry B. Gonzalez
Chairman
Subcommittee on Housing and Community
Development
Committee on Banking, Finance
and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for affording the Credit Union National Association, Inc., the opportunity to comment on your bill H.R. 4292, the Emergency Housing Assistance Act of 1988.

As you may know, credit unions are fairly new to home mortgage lending as a significant percentage of their overall lending activity and therefore our input on this subject is somewhat limited. By way of background, first mortgage lending by credit unions in 1979 was about 5.3% of total assets. Today that number is 10%. While this is almost double the activity, it still remains far behind consumer lending which is the primary focus of credit unions.

Another statistic which may be useful concerns the number of credit unions offering first mortgages. There are about 16,000 credit unions overall. In 1979, approximately 12% (1,900) were offering such loans. Today that number has doubled and about 25% (4,000) of all credit unions make first mortgages available to their members.

The overall credit union loan delinquency rate is low and stable. In Texas, for example, significant credit union first mortgages lending is a fairly recent event and, therefore, we have not experienced any substantial amount of delinquencies nor foreclosures. Credit unions by their nature of being member owned and member controlled exercise a degree of forbearance with their members which most likely exceeds that

May 25, 1988
The Honorable Henry B. Gonzalez
Page 2

of other lenders. Credit unions make a practice of working with members who are experiencing difficult times in an effort to see them through and get them back on their feet financially.

Therefore we certainly support efforts which will assist consumers in difficult times and at the same time ensure the continued viability of lending institutions themselves.

I certainly hope these comments are useful in your deliberations.

Sincerely,

Charles O. Zuver
Senior Vice President
Director/Governmental Affairs

COZ:na

National Association of Home Builders
15th and M Streets, N.W., Washington, D.C. 20005
Telex 89-2600 (202) 822-0500 (800) 368-5242

June 10, 1988

Dale Stuard
1988 President

The Honorable Henry B. Gonzalez
Chairman
Housing and Community Development Subcommittee
Committee on Banking Finance and Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing with regard to the hearing the Housing and Community Development Subcommittee held on May 24 on H.R.4292, the Emergency Housing Assistance Act of 1988. Although the National Association of Home Builders (NAHB) did not testify at the hearing and has not adopted a policy on H.R.4292 specifically, I wish to take this opportunity to convey to the Subcommittee NAHB's interest in this legislation, and to ask that this letter be made part of the hearing record on the bill.

While NAHB has not taken an official position on H.R.4292, the Association has on past occasions expressed its views with regard to the need for lenders to forebear instituting foreclosure proceedings against defaulted homeowners in economically depressed areas. Most recently, NAHB adopted a resolution on May 6, 1988, urging the VA and FHA to develop a broad program of forebearance in order to help out those homeowners who have lost their primary source of income until they are again able to make full mortgage payments. The resolution further urges the FHA to take the steps necessary to implement the Temporary Mortgage Assistance Program (TMAP) previously authorized by Congress. I am enclosing a copy of NAHB's resolution on this point and ask that it be made part of the hearing record.

Prior to the adoption of our May 6 resolution, NAHB Vice President/Treasurer Martin Perlman had written to Rep. Burton to express NAHB's support for efforts to keep those veterans who lose their jobs in their homes, thereby minimizing the number of foreclosures taking place in economically depressed areas. In his April 8 letter to Rep. Burton, Mr. Perlman suggested several

HOUSING
THE AMERICAN
PROMISE

possible solutions for keeping temporarily unemployed veterans from losing their homes through foreclosure. These suggestions included reducing interest rates for veterans who are in financial trouble and imposing a short-term moratorium on foreclosures of veterans' homes.

As the May 6 resolution and the April 8 proposals suggest, NAHB is in full agreement with the intent of your legislation to prevent foreclosure when the homeowner's default is due to loss of income or employment in an economically depressed area. Not only are such foreclosures devastating to the individual families subjected to them, the tragedy of losing one's home is compounded in particularly depressed regions by the inability of either the homeowner or the lender to get a fair price for the home, thereby foreclosing for many the possibility of buying another home once employment has been restored.

NAHB commends the Subcommittee for considering H.R.4292 as a possible means of keeping those homeowners who lose their jobs through no fault of their own from then losing the one last vestige remaining to them of the American dream. At the same time, we must recognize the potential cost of implementing a full scale program and its unintended impact on interest rates, thus adding to the federal deficit. NAHB would welcome the opportunity to work with the Subcommittee in further exploring either the type of program called for under H.R.4292 or any other feasible approach by which this devastating problem might be addressed.

Thank you again for the opportunity to comment on H.R.4292.

Sincerely,

Dale Stuard

Dale Stuard
President

Enclosure

May 6-11, 1988
Washington, D.C.

NAHB Resolution

Temporary Mortgage Assistance

WHEREAS, homeownership is a cornerstone of the American way of life;

WHEREAS, for most American families, investment in a home represents the bulk of their net worth;

WHEREAS, large numbers of home owners, through no personal fault or failure, are unable to keep their mortgage payment current; and

WHEREAS, default problems cause significant losses to the FHA and VA program,

NOW, THEREFORE, BE IT RESOLVED that the Federal Housing Administration and the Veterans Administration, in conjunction with their approved lenders, develop a broad program of forebearance to assist home owners until they regain the ability to make full payment, and thereby permit them to remain in possession of their homes, and

BE IT FURTHER RESOLVED that FHA take all necessary steps to make workable, expand and effectively implement the Temporary Mortgage Assistance Program (TMAP) authorized by Congress.

BOARD OF DIRECTORS ACTION: APPROVED

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Mortgage Bankers Association of America

Burton C. Wood
Senior Staff Vice President
and Legislative Counsel
202-861-6507

June 8, 1988

The Honorable Henry B. Gonzalez
Chairman
Subcommittee on Housing & Community Development
Committee on Banking, Finance and Urban Affairs
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

At the hearings on HR 4292, the "Emergency Housing Assistance Act of 1988", on Tuesday, May 24, Representative Steve Bartlett requested the Mortgage Bankers Association of America to estimate the number of mortgages in the Federal Home Loan Bank districts, targeted for assistance in HR 4292, that would qualify for assistance currently and the estimated costs of bringing those mortgages current. The enclosed report, in response to that question, has been prepared by MBA's Economics Department for inclusion in the hearing record.

We appreciate very much the opportunity to testify and would be happy to furnish any additional needed information.

Sincerely,

Burton C. Wood

BCW:amk

enc.

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

June 6, 1988

Methodology Underlying the Estimation of Potential Demand for Assistance Under the Emergency Homeownership Assistance Act of 1988

I. Introduction

The Emergency Homeownership Assistance Act of 1988, introduced by Representative Henry Gonzalez (D-TX), proposes to establish a $500 million revolving fund to make loans to homeowners in default on conventional and VA loans in economically distressed areas. These loans would be to reinstate the loan (pay arrearages) and may also include financial assistance to keep the loan current for up to 18 months. At the discretion of the Secretary of HUD, who would administer the program and determine the eligibility of individual homeowners, this assistance could be extended for an additional 18 months. To be eligible a homeowner must be delinquent for 90 days or more or the mortgagee must have begun or must have announced the intention to begin foreclosure. Also, the delinquency must be due to loss of employment or income due to factors beyond the mortgagor's control.

The availability of loans under this program would be triggered by the 60 day mortgage delinquency rate for each of the 12 Federal Home Loan Bank (FHLB) districts. If that delinquency rate for any FHLB district were to rise to 2 percent or more, the program would be triggered for the states in that district. As of September, 1987, five FHLB

districts--Cincinnati, Des Moines, Dallas, Topeka, and Seattle--met this criterion. (By December, 1987, the 60 day delinquency rate for the Seattle district fell below 2 percent.)

The MBA Economics Department was asked to estimate the dollar volume of loans that potentially could be requested under this program. As noted above, the assistance provided under this program can be divided into two categories -- the paying of arrearages to reinstate the loan and income assistance thereafter to keep the loan current. The estimates provided in this paper are of the first category--the potential demand for funds to pay arrearages on homeowner mortgages delinquent due to unemployment or underemployment. No attempt was made to estimate the potential demand for income assistance to keep loans current after they have been reinstated.

In the five FHLB districts referred to above, the potential loan demand could reach $1.3 billion for conventional loans and $0.2 billion for VA loans--a total of $1.5 billion. Based on the same assumptions, the demand for the nation as a whole could reach $1.7 billion for conventional loans and $0.3 billion for VA loans--a total of $2.0 billion. The remainder of this paper discusses how these estimates were derived.

II. Outstanding Loans by State

The first step was to estimate the number of mortgage loans by loan type, geographically. States were used as the geographical units, then combined into FHLB districts later in the analysis. Table 1 shows the estimated number of loans outstanding by state at the end of 1987. Although FHA loans are not included in this proposed legislation, they are included in this and several subsequent tables to serve as background information to round out the picture of total loans outstanding. The state estimates of

FHA and VA loans were obtained from the respective agencies. However, conventional loans by state are not available from any known source and so had to be estimated. The numbers in Table 1 reflect the allocation of an estimate of total conventional loans in the U.S. on the basis of the distribution of the noninstitutional population by state. The assumption is that the housing stock is highly correlated with population and that outstanding conventional loans are highly correlated with the housing stock.

It is recognized that this allocation procedure may not yield precise results. For example, it is likely the case that states that have experienced substantial population and economic growth in recent decades, such as California, Florida, and Texas, have more outstanding mortgage loans per capita than do states in the Northeast and Midwest which have experienced a long-term trend of population out-migration. Analysis was undertaken to examine this proposition. Statistical tests were conducted to determine if the turnover of the housing stock (measured by the ratio of population to existing home sales) was significantly higher in states with higher than average population growth rates. The results suggested that turnover rates do not vary systematically with state growth rates; therefore, the allocation of conventional loans on the basis of the population shares appears to be a reasonable first approximation.

III. Delinquencies and Foreclosures Due to Economic Distress

Once the number of loans by loan type and state was estimated, the next step involved determining how many of these loans are in default or foreclosure and how many were in that status due to economic distress. Tables 2-4 show delinquency and foreclosure rates by state from MBA's National Delinquency Survey for conventional loans, FHA loans, and VA loans, respectively. Rates for 1980:Q4 and 1987:Q4 are presented for 60- and 90-

day delinquencies and for foreclosures in process. The data suggest that, in general, delinquency and foreclosure rates have increased since 1980. The 60-day delinquencies are shown for reference since the FHLB 60-day default rate series is used in the triggering mechanism noted earlier. It should be noted, however, that these two series are conceptually different. The MBA series refers to a percent of the number of mortgages while the FHLB series refers to a percent of the dollar volume of mortgages.

The proposed legislation focuses on loans that are 90-days delinquent or in foreclosure. Therefore, the sum of the 90-day delinquency rate and the rate of foreclosures in process provides an indication of the overall "problem" loan rate. Applying this problem loan rate by loan type and state to loans outstanding from Table 1 provides estimates of the total number of problem loans by loan type and state, as shown in Table 5. Note that the estimates in Table 5 reflect all problem loans, not just those associated with economic distress.

Some of the most important assumptions of this analysis concern the methodology for splitting the number of problem loans into those due to economic distress and those due to other factors. The split is based on the observation that a state's unemployment rate, as shown in Table 6, is a crucial determinant of that state's problem loan rate. Appendix I provides statistical evidence supporting this contention and presents details on the methods used to estimate the number of problem loans due to economic distress by loan type and state. In short, the methodology described in the appendix assumes that the average problem loan rate by loan type for low unemployment rate states (those 13 states with an unemployment rate below 4 1/2 percent in 1987:12) serves as a benchmark. The problem loans in these states are likely predominately due to divorce, disability, death, or other such events rather than the mortgagor's inability to find employment. The problem loan

rate by loan type and state minus the benchmark rate provides an estimate of the part of the problem loan rate associated with economic distress in each state. Applying this percentage to the number of problem loans from Table 5 gives an estimate of the number of problem loans associated with economic distress. Table 7 shows these estimates by loan type combined into FHLB districts.

IV. The Cost of Reinstatement

The final step of the analysis is to estimate the potential dollar volume of loans to pay arrearages on the mortgages in Table 7. To do this, the average loan amount by loan type is estimated by state. These estimates are shown in Table 8. The FHA and VA amounts are based on respective agency data. State data on conventional loans are not available from any known source and so had to be estimated. The conventional loan amounts are estimated by using the VA amounts as an indicator series. For each state the ratio of the average VA loan amount to the U.S. average loan amount is applied to the U.S. conventional average loan amount.

Once the average mortgage amounts were estimated, the arrearages per loan by state were estimated by assuming that: 1) the interest rate on the loan is 12 1/2 percent (the average of the past 5 years); 2) property taxes, insurance, etc. amount to 2 percent of the loan amount; and 3) the loan is 8 months in arrears. Using these assumptions in conjunction with the number of loans in Table 7 and the average loan amounts in Table 8 provides an estimate of the potential demand for the proposed program by loan type. These estimates are shown by FHLB district in Table 9. Note that these estimates assume that all of the problem loans due to economic distress would be eligible and would seek assistance.

V. Conclusion

As the discussion above illustrates, these estimates of potential demand depend critically on the underlying assumptions. We believe these assumptions are reasonable, but we would like to emphasize that the estimates are inherently "rough." Several specific points should be noted:

1. The analysis does not account for the fact that the proposed legislation is to be targeted to loans with an original balance at or below the maximum FHA loan amount. To do so would require distributions of loan amounts by state which we have been unable to obtain.

2. The analysis assumes that all mortgagors in the problem loan status due to economic distress would be eligible for the program and would seek assistance. It seems likely that many of those eligible would not apply and that many of those who would apply would be found to be ineligible due to the circumstances surrounding their loss of income and due to an assessment of their ability to keep the mortgage current while also repaying the assistance.

3. The assumption concerning the average number of months in arrears is quite important. Changing the estimate from 8 months to 6 months would reduce the potential demand estimate for the 5 FHLB Districts by about $375 million. Raising it to 10 months would raise the estimate by about $375 million.

4. Precise numbers are presented in the tables, but it should be understood that the

estimates really reflect midpoints of ranges. Because they are only estimates with a lot of uncertainty, the ranges could be large. We do not have enough information to say exactly how large.

Appendix I

The Relationship Between Unemployment and Problem Mortgage Loans

One of the most important factors affecting mortgage loan delinquencies and foreclosures is unemployment. For homeowners, the most obvious potential hardship associated with the loss of a job is that they may become unable to meet their mortgage obligations, which, in turn, greatly increases the risk that they will lose their homes through foreclosure.

Unemployment often arises for reasons beyond a worker's control. For example, a rise in unemployment in any given state may result from concentration in that state of industries facing declining markets. In such economically disadvantaged states, a rise in unemployment relative to national trends will result in higher delinquency and foreclosure rates relative to national averages.

The regression equations below examine this relationship using data from the MBA National Delinquency Survey. Specifically, the equations are based on observations from the 30 states with the largest number of conventional loans serviced.

In the first equation, a measure of problem conventional loans by state in 1987:Q4 is estimated as a function of a measure of problem loans in 1980:Q4 and the change in relative economic conditions in each state. Problem loans are those that are over 90 days delinquent or in foreclosure; the measure of problem loans used in the equation is the ratio of two percentages. The percentage in the numerator is problem conventional loans by

state as a percentage of all conventional loans by state. The percentage in the denominator substitutes national averages for the state measures. The idea behind the equation is that changes in the percentage of problem loans in a state relative to the national percentage can be explained to an important extent by improvement or deterioration in state economic conditions relative to national economic conditions.

$$SR87/USR87 = \underset{(8.1)}{0.9008}\ SR80/USR80 + \underset{(6.9)}{2.5853}\ (URS87/URUS87 - URS80/URUS80)$$

$$R^2 = 0.45;\ D\text{-}W = 1.9;\ SE = 0.61$$

(t - statistics in parentheses beneath the coefficients)

where:

SR87	=	problem conventional loans by state in 1987:Q4 as a percentage of total conventional loans by state in 1987:Q4;
USR87	=	problem conventional loans in the United States in 1987:Q4 as a percentage of total conventional loans in the United States in 1987:Q4;
SR80	=	problem conventional loans by state in 1980:Q4 as a percentage of total conventional loans by state in 1980:Q4;
USR80	=	problem conventional loans in the United States in 1980:Q4 as a percentage of total conventional loans in the United States in 1980:Q4;
URS87	=	the unemployment rate by state in 1987;
URUS87	=	the unemployment rate in the United States in 1987;
URS80	=	the unemployment rate by state in 1980;
URUS80	=	the unemployment rate in the United States in 1980.

While obviously not providing a complete model of problem loans, the equation does suggest that relative economic conditions in a state play an important role in determining the extent of problem loans in that state. The SR80/USR80 coefficient is not significantly different statistically from 1.0, which implies that the extent of problem loans found in a state relative to those in the nation in 1980 is indicative of the relative extent of problem

loans in 1987. The (URS87/URUS87-URS80/URUS80) term is highly significant and illustrates the importance of relative state economic distress.

The second equation estimates the change in the dependent variable in the previous equation from 1980 to 1987 as a function of the economic distress term. In effect, the equation constrains the coefficient of the SR80/URS80 term in the equation above to 1.0, which helps highlight the explanatory power of changes in relative state economic distress.

$$\underset{}{SR87/URS87 - SR80/USR80} = \underset{(.6)}{0.0663} + \underset{(7.1)}{2.6463}\,(USR87/URUS87 - URS80/URUS80)$$

$$R^2 = 0.63;\ D\text{-}W = 2.1;\ SE = 0.62.$$

The equation shows that the economic distress term is highly significant and explains a great deal of the variation in the difference between the problem loans measure by state in 1987 and the same measure in 1980.

Given the significant role unemployment plays in determining problem loans by state, an important question to ask is: How much of the current problem loan rate in a state can be attributed to unemployment? The approach used here is to determine the average problem loan rate for states with relatively low unemployment rates (13 states with unemployment rates below 4 1/2 percent in 1987:12), then to attribute the difference between problem loan rates by state and this average to relative economic distress. The idea is that the portion of a state's problem loan rate that is above the average for the low unemployment rate states comes about because unemployment is relatively more severe in that state. The number of problem loans by state by loan type (conventional or VA) attributable to relative economic distress is calculated as follows:

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$$PLU = (R87 - LOWR87) * L87$$

where:

PLU	=	number of problem loans attributable to relative economic distress;
R87	=	problem loan rate by state in 1987:Q4;
LOWR87	=	average problem loan rate in 1987:Q4 for states with relatively low unemployment rates;
L87	=	number of loans outstanding by state at the end of 1987.

The average problem loan rate for relatively low unemployment rate states (LOWR87 in the equation) was 0.43 percent for conventional loans and 1.48 percent for VA loans in 1987:Q4.

TABLE 1

ESTIMATED NUMBER OF
LOANS OUTSTANDING BY STATE

	CONVENTIONAL 12/31/87	VA 12/31/87	FHA 12/31/87	TOTAL 12/31/87
ALABAMA	476,644	86,778	113,801	677,222
ALASKA	54,164	11,728	12,292	78,184
ARIZONA	394,691	112,366	249,237	756,294
ARKANSAS	279,141	34,608	53,807	367,557
CALIFORNIA	3,224,568	545,016	791,376	4,560,961
COLORADO	383,073	156,958	214,157	754,189
CONNECTICUT	393,435	19,523	24,804	437,763
DC	74,888	142,522	13,608	231,018
DELAWARE	76,772	5,010	16,856	98,638
FLORIDA	1,480,485	232,235	387,655	2,100,375
GEORGIA	715,280	141,520	165,991	1,022,791
HAWAII	119,789	17,136	28,385	165,310
IDAHO	111,311	20,880	36,262	168,453
ILLINOIS	1,371,843	103,297	211,283	1,686,422
INDIANA	652,952	75,787	123,668	852,407
IOWA	335,503	30,475	37,975	403,953
KANSAS	287,462	38,568	39,662	365,692
KENTUCKY	435,982	35,606	68,649	540,237
LOUISIANA	503,490	71,853	106,919	682,262
MAINE	140,827	16,103	9,238	166,167
MARYLAND	541,484	59,386	173,419	774,289
MASSACHUSETTS	720,147	51,742	29,039	800,928
MICHIGAN	1,087,992	86,605	216,965	1,391,561
MINNESOTA	501,763	100,016	186,519	788,299
MISSISSIPI	294,684	40,957	64,671	400,312
MISSOURI	606,952	62,426	112,246	781,624
MONTANA	93,727	14,919	34,923	143,569
NEBRASKA	185,414	30,323	39,365	255,101
NEVADA	120,103	30,503	87,378	237,984
NEW HAMPSHIRE	126,226	9,864	5,558	141,648
NEW JERSEY	942,298	98,465	125,860	1,166,623
NEW MEXICO	169,086	24,483	51,978	245,547
NEW YORK	2,159,498	129,806	257,717	2,547,022
NORTH CAROLINA	755,157	112,338	114,171	981,666
NORTH DAKOTA	75,830	2,458	20,216	98,504
OHIO	1,280,313	173,717	208,072	1,662,103
OKLAHOMA	377,108	69,319	119,779	566,206
OREGON	327,025	20,368	56,076	403,470
PENNSYLVANIA	1,458,505	90,428	154,825	1,703,758
RHODE ISLAND	119,789	1,447	5,109	126,344
SOUTH CAROLINA	391,708	63,780	81,725	537,214
SOUTH DAKOTA	80,854	4,381	20,122	105,357
TENNESSEE	578,064	86,897	178,733	843,694
TEXAS	1,887,736	416,480	583,887	2,888,103
UTAH	170,499	35,250	88,204	293,953
VERMONT	64,997	2,092	1,332	68,421
VIRGINIA	688,276	136,561	186,777	1,011,614
WASHINGTON	532,692	82,450	183,966	799,108
WEST VIRGINIA	227,489	11,061	8,352	246,902
WISCONSIN	567,545	37,463	47,055	652,063
WYOMING	54,792	8,784	20,549	84,125
U.S. TOTAL	28,700,055	3,992,738	6,170,214	38,863,007

TABLE 2

DELINQUENCY AND FORECLOSURE RATES: CONVENTIONAL LOANS
(Percent)

	1980:04			1987:04			PERCENTAGE POINT CHANGE		
	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.
ALABAMA	0.62	0.30	0.05	0.41	0.31	0.27	-0.21	0.01	0.22
ALASKA	0.30	0.34	0.12	1.70	6.99	5.67	1.40	6.65	5.55
ARIZONA	0.43	0.22	0.15	0.56	0.73	0.92	0.13	0.51	0.77
ARKANSAS	0.32	0.47	0.21	0.71	0.95	1.43	0.39	0.48	1.22
CALIFORNIA	0.48	0.25	0.18	0.31	0.23	0.46	-0.17	-0.02	0.28
COLORADO	0.51	0.24	0.12	0.64	0.96	1.98	0.13	0.72	1.86
CONNECTICUT	0.65	0.55	0.14	0.53	0.34	0.12	-0.12	-0.21	-0.02
DC	1.02	0.42	0.42	0.83	0.81	0.49	-0.19	0.39	0.07
DELAWARE	0.21	0.16	0.06	0.35	0.30	0.23	0.14	0.14	0.17
FLORIDA	0.28	0.21	0.14	0.47	0.42	0.98	0.19	0.21	0.84
GEORGIA	0.37	0.22	0.13	0.42	0.38	0.39	0.05	0.16	0.26
HAWAII	0.43	0.46	0.08	0.34	0.38	0.36	-0.09	-0.08	0.28
IDAHO	0.80	0.34	0.38	0.60	0.86	1.04	-0.20	0.52	0.66
ILLINOIS	0.43	0.33	0.29	0.39	0.19	0.61	-0.04	-0.14	0.32
INDIANA	0.42	0.29	0.21	0.56	0.39	0.53	0.14	0.10	0.32
IOWA	0.48	0.57	0.09	0.49	0.43	1.09	0.01	-0.14	1.00
KANSAS	0.29	0.29	0.16	0.67	1.04	1.52	0.38	0.75	1.36
KENTUCKY	0.48	0.45	0.46	0.39	0.32	0.60	-0.09	-0.13	0.14
LOUISIANA	0.16	0.17	0.07	0.72	1.13	2.53	0.56	0.96	2.46
MAINE	0.78	0.28	0.26	0.58	0.19	0.15	-0.20	-0.09	-0.11
MARYLAND	0.34	0.26	0.09	0.36	0.28	0.32	0.02	0.02	0.23
MASSACHUSETTS	0.64	0.18	0.09	0.34	0.21	0.09	-0.30	0.03	0.00
MICHIGAN	0.48	0.26	0.08	0.46	0.36	0.24	-0.02	0.10	0.16
MINNESOTA	0.41	0.19	0.06	0.39	0.45	0.92	-0.02	0.26	0.86
MISSISSIPI	0.54	0.28	0.07	0.48	0.81	1.09	-0.06	0.53	1.02
MISSOURI	0.50	0.49	0.05	0.34	0.29	0.34	-0.16	-0.20	0.29
MONTANA	0.26	0.32	0.13	0.89	1.07	2.56	0.63	0.75	2.43
NEBRASKA	0.20	0.12	0.12	0.51	0.32	0.60	0.31	0.20	0.48
NEVADA	0.79	0.23	0.35	0.76	0.56	1.39	-0.03	0.33	1.04
NEW HAMPSHIRE	1.25	0.30	0.09	0.48	0.21	0.03	-0.77	-0.09	-0.06
NEW JERSEY	0.71	0.40	0.24	0.32	0.25	0.24	-0.39	-0.15	0.00
NEW MEXICO	0.46	0.29	0.06	0.78	0.65	1.15	0.32	0.36	1.09
NEW YORK	0.93	0.50	0.21	0.47	0.21	0.19	-0.46	-0.29	-0.02
NORTH CAROLINA	0.52	0.47	0.09	0.30	0.24	0.22	-0.22	-0.23	0.13
NORTH DAKOTA	0.00	0.00	0.00	0.74	2.37	4.88	0.74	2.37	4.88
OHIO	1.01	1.00	0.39	0.48	0.51	0.67	-0.53	-0.49	0.28
OKLAHOMA	0.26	0.16	0.20	0.88	2.13	6.01	0.62	1.97	5.81
OREGON	0.39	0.16	0.08	0.49	0.55	0.85	0.10	0.39	0.77
PENNSYLVANIA	0.60	0.43	0.22	0.64	0.67	0.62	0.04	0.24	0.40
RHODE ISLAND	0.79	0.13	0.34	0.32	0.18	0.08	-0.47	0.05	-0.26
SOUTH CAROLINA	0.38	0.14	0.13	0.55	0.79	0.89	0.17	0.65	0.76
SOUTH DAKOTA	0.00	0.00	0.00	0.39	0.34	0.54	0.39	0.34	0.54
TENNESSEE	0.48	0.26	0.12	0.39	0.44	0.29	-0.09	0.18	0.17
TEXAS	0.28	0.16	0.04	0.93	2.81	1.55	0.65	2.65	1.51
UTAH	0.67	0.51	0.23	1.11	1.44	1.52	0.44	0.93	1.29
VERMONT	0.00	0.00	0.00	0.49	0.43	0.57	0.49	0.43	0.57
VIRGINIA	0.39	0.30	0.05	0.45	0.21	0.11	0.06	-0.09	0.06
WASHINGTON	0.43	0.25	0.13	0.35	0.36	0.51	-0.08	0.11	0.38
WEST VIRGINIA	0.57	0.72	0.32	0.75	0.30	1.02	0.18	-0.42	0.70
WISCONSIN	0.49	0.35	0.12	0.48	0.48	0.58	-0.01	0.13	0.46
WYOMING	1.16	0.17	0.06	0.42	6.27	5.31	-0.74	6.10	5.25
U.S. TOTAL	0.56	0.35	0.17	0.49	0.60	0.67	-0.07	0.25	0.50

TABLE 3

DELINQUENCY AND FORECLOSURE RATES: FHA LOANS
(Percent)

	1980:04			1987:04			PERCENTAGE POINT CHANGE		
	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.
ALABAMA	1.33	0.95	0.26	1.14	1.10	0.45	-0.19	0.15	0.19
ALASKA	0.58	0.26	1.26	1.80	3.63	6.77	1.22	3.37	5.51
ARIZONA	0.86	0.52	0.22	1.16	1.18	1.37	0.30	0.66	1.15
ARKANSAS	0.79	0.79	0.25	1.15	1.36	1.04	0.36	0.57	0.79
CALIFORNIA	1.06	0.73	0.30	0.97	0.89	0.96	-0.09	0.16	0.66
COLORADO	0.86	0.66	0.30	1.26	1.79	3.78	0.40	1.13	3.48
CONNECTICUT	0.86	0.55	0.19	0.85	0.60	0.39	-0.01	0.05	0.20
DC	1.53	1.00	0.50	1.63	2.20	2.86	0.10	1.20	2.36
DELAWARE	1.25	0.60	0.56	1.05	0.64	0.57	-0.20	0.04	0.01
FLORIDA	1.19	0.58	0.36	1.10	0.79	1.19	-0.09	0.21	0.83
GEORGIA	1.22	1.13	0.51	1.14	1.13	0.78	-0.08	0.00	0.27
HAWAII	0.86	0.68	0.14	0.46	0.34	0.56	-0.40	-0.34	0.42
IDAHO	0.85	0.60	0.28	0.85	1.17	1.67	0.00	0.57	1.39
ILLINOIS	2.04	1.72	2.06	1.66	2.21	2.86	-0.38	0.49	0.80
INDIANA	1.50	0.95	1.02	1.23	1.02	1.36	-0.27	0.07	0.34
IOWA	0.63	0.98	0.30	0.83	1.05	1.92	0.20	0.07	1.62
KANSAS	0.90	0.79	0.31	1.08	1.09	1.56	0.18	0.30	1.25
KENTUCKY	1.41	0.95	0.57	1.00	0.83	0.74	-0.41	-0.12	0.17
LOUISIANA	0.76	0.55	0.16	1.55	1.58	2.12	0.79	1.03	1.96
MAINE	0.75	0.86	0.11	0.92	0.33	0.52	0.17	-0.53	0.41
MARYLAND	1.13	0.76	0.35	0.90	0.89	1.03	-0.23	0.13	0.68
MASSACHUSETTS	0.74	0.41	0.25	1.11	1.04	0.43	0.37	0.63	0.18
MICHIGAN	2.07	1.56	1.00	1.68	1.56	1.84	-0.39	0.00	0.84
MINNESOTA	0.68	0.50	0.15	0.67	0.88	1.27	-0.01	0.38	1.12
MISSISSIPI	1.12	0.79	0.24	1.39	1.19	1.28	0.27	0.40	1.04
MISSOURI	1.44	0.77	0.37	1.08	0.96	0.81	-0.36	0.19	0.44
MONTANA	1.18	1.07	0.85	1.18	1.31	3.36	0.00	0.24	2.51
NEBRASKA	0.70	1.11	0.49	1.05	0.79	0.93	0.35	-0.32	0.44
NEVADA	1.16	0.81	0.37	1.09	1.30	1.87	-0.07	0.49	1.50
NEW HAMPSHIRE	1.18	0.42	0.17	1.05	0.58	0.47	-0.13	0.16	0.30
NEW JERSEY	1.82	1.53	1.30	1.49	1.49	1.70	-0.33	-0.04	0.40
NEW MEXICO	0.67	0.34	0.12	0.97	0.84	0.75	0.30	0.50	0.63
NEW YORK	2.04	1.64	1.24	1.26	1.23	1.11	-0.78	-0.41	-0.13
NORTH CAROLINA	1.02	0.80	0.39	0.88	0.71	0.62	-0.14	-0.09	0.23
NORTH DAKOTA	0.38	0.38	0.38	0.45	1.12	4.49	0.07	0.74	4.11
OHIO	1.39	1.23	1.08	1.30	1.45	1.90	-0.09	0.22	0.82
OKLAHOMA	0.85	0.46	0.23	1.37	2.05	4.61	0.52	1.59	4.38
OREGON	0.54	0.30	0.08	0.44	0.53	1.01	-0.10	0.23	0.93
PENNSYLVANIA	1.80	1.06	1.01	1.83	2.02	2.51	0.03	0.96	1.50
RHODE ISLAND	0.59	0.00	0.24	0.89	0.35	0.16	0.30	0.35	-0.08
SOUTH CAROLINA	1.43	1.03	0.91	1.38	1.45	1.63	-0.05	0.42	0.72
SOUTH DAKOTA	0.29	1.05	0.64	0.41	0.87	1.08	0.12	-0.18	0.44
TENNESSEE	1.26	0.93	0.46	1.26	1.58	0.82	0.00	0.65	0.36
TEXAS	0.75	0.41	0.06	1.64	2.50	1.53	0.89	2.09	1.47
UTAH	1.27	0.95	0.38	1.15	1.41	1.57	-0.12	0.46	1.19
VERMONT	0.79	0.79	0.79	0.80	2.01	2.01	0.01	1.22	1.22
VIRGINIA	0.91	0.61	0.19	0.75	0.56	0.50	-0.16	-0.05	0.31
WASHINGTON	0.72	0.54	0.23	0.75	0.83	1.04	0.03	0.29	0.81
WEST VIRGINIA	0.73	0.22	0.20	0.72	0.82	0.67	-0.01	0.60	0.47
WISCONSIN	1.32	1.36	0.83	0.97	1.67	1.50	-0.35	0.31	0.67
WYOMING	1.01	0.41	0.29	0.72	1.22	4.53	-0.29	0.81	4.24
U.S. TOTAL	1.22	0.87	0.53	1.18	1.27	1.44	-0.04	0.40	0.91

TABLE 4

DELINQUENCY AND FORECLOSURE RATES: VA LOANS
(Percent)

	1980:04			1987:04			PERCENTAGE POINT CHANGE		
	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.	60 DAYS PAST DUE	90 DAYS PAST DUE	FCLR. IN PROC.
ALABAMA	1.28	0.79	0.25	0.95	0.72	0.43	-0.33	-0.07	0.18
ALASKA	0.44	0.76	0.51	2.23	5.98	5.54	1.79	5.22	5.03
ARIZONA	0.83	0.47	0.22	1.18	1.21	1.29	0.35	0.74	1.07
ARKANSAS	0.91	1.00	0.51	1.29	1.36	1.43	0.38	0.36	0.92
CALIFORNIA	0.93	0.71	0.30	0.88	0.94	0.84	-0.05	0.23	0.54
COLORADO	0.88	0.60	0.33	1.17	1.42	2.52	0.29	0.82	2.19
CONNECTICUT	0.80	0.49	0.18	1.02	0.34	0.38	0.22	-0.15	0.20
DC	1.54	1.33	0.68	1.74	1.66	1.51	0.20	0.33	0.83
DELAWARE	1.18	0.67	0.64	1.20	0.78	0.81	0.02	0.11	0.17
FLORIDA	0.75	0.59	0.31	1.06	0.75	1.32	0.31	0.16	1.01
GEORGIA	1.03	0.80	0.36	1.20	1.10	0.81	0.17	0.30	0.45
HAWAII	0.55	0.59	0.28	0.61	0.63	1.20	0.06	0.04	0.92
IDAHO	1.10	0.76	0.71	0.86	1.25	1.89	-0.24	0.49	1.18
ILLINOIS	1.63	1.82	1.90	1.60	2.31	2.39	-0.03	0.49	0.49
INDIANA	1.40	0.97	0.95	1.46	0.87	1.74	0.06	-0.10	0.79
IOWA	1.12	1.27	0.48	1.09	1.52	2.16	-0.03	0.25	1.68
KANSAS	0.91	1.19	0.68	1.15	1.11	1.48	0.24	-0.08	0.80
KENTUCKY	0.91	0.80	0.37	0.90	0.80	1.06	-0.01	0.00	0.69
LOUISIANA	0.67	0.37	0.10	1.23	1.32	1.47	0.56	0.95	1.37
MAINE	1.54	0.63	0.24	0.94	0.42	0.40	-0.68	-0.21	0.16
MARYLAND	0.90	0.67	0.26	1.02	0.85	0.76	0.12	0.18	0.50
MASSACHUSETTS	0.76	0.27	0.23	0.61	0.45	0.28	-0.15	0.18	0.05
MICHIGAN	1.30	0.91	0.30	1.40	1.25	1.38	0.10	0.34	1.08
MINNESOTA	0.90	0.56	0.21	0.88	0.96	1.01	-0.02	0.40	0.80
MISSISSIPI	0.95	0.64	0.23	1.03	0.83	0.94	0.08	0.19	0.71
MISSOURI	1.00	0.75	0.25	0.89	0.88	0.66	-0.11	0.13	0.41
MONTANA	0.80	1.67	1.37	0.94	1.20	2.03	0.14	-0.47	0.66
NEBRASKA	0.75	1.08	0.37	0.89	0.80	1.10	0.14	-0.28	0.73
NEVADA	0.88	0.63	0.45	1.09	1.14	1.46	0.21	0.51	1.01
NEW HAMPSHIRE	1.52	0.71	0.24	1.04	0.40	0.30	-0.48	-0.31	0.06
NEW JERSEY	1.68	1.26	0.91	1.40	1.35	1.15	-0.28	0.09	0.24
NEW MEXICO	0.53	0.25	0.11	0.88	0.79	1.04	0.35	0.54	0.93
NEW YORK	1.48	0.88	0.69	1.37	0.76	0.78	-0.11	-0.12	0.09
NORTH CAROLINA	0.95	0.74	0.21	0.99	0.77	0.79	0.04	0.03	0.58
NORTH DAKOTA	0.72	0.48	0.48	0.58	2.03	4.53	-0.14	1.55	4.05
OHIO	1.43	1.22	1.54	1.43	1.36	1.91	0.00	0.14	0.37
OKLAHOMA	0.94	0.68	0.45	1.47	2.24	4.29	0.53	1.56	3.84
OREGON	0.57	0.52	0.19	0.77	0.65	1.02	0.20	0.13	0.83
PENNSYLVANIA	1.74	1.36	1.14	1.64	2.10	2.06	-0.10	0.74	0.92
RHODE ISLAND	0.72	0.00	0.00	1.29	0.81	0.32	0.57	0.81	0.32
SOUTH CAROLINA	0.97	0.73	0.49	1.13	1.06	1.16	0.16	0.33	0.67
SOUTH DAKOTA	0.50	1.74	0.62	0.50	0.94	1.49	0.00	-0.80	0.87
TENNESSEE	1.01	0.69	0.32	1.33	1.48	0.55	0.32	0.79	0.23
TEXAS	0.87	0.53	0.11	1.87	2.98	1.61	1.00	2.45	1.50
UTAH	1.29	1.03	0.54	1.08	1.36	1.75	-0.21	0.33	1.21
VERMONT	1.03	1.03	1.37	0.95	1.27	1.27	-0.08	0.24	-0.10
VIRGINIA	0.61	0.44	0.12	0.70	0.55	0.46	0.09	0.11	0.34
WASHINGTON	0.96	0.81	0.36	0.88	0.91	1.46	-0.08	0.10	1.10
WEST VIRGINIA	0.95	1.24	0.73	1.44	1.29	1.67	0.49	0.05	0.94
WISCONSIN	1.39	1.65	0.60	1.37	1.55	1.47	-0.02	-0.10	0.87
WYOMING	0.91	1.01	0.44	1.16	1.78	6.53	0.25	0.77	6.09
U.S. TOTAL	1.04	0.78	0.46	1.17	1.26	1.28	0.13	0.48	0.82

TABLE 5

NUMBER OF LOANS DELINQUENT 90 DAYS OR MORE OR IN FORECLOSURE

	CONVENTIONAL	FHA	VA
ALABAMA	2765	1764	998
ALASKA	6857	1278	1351
ARIZONA	6512	6356	2809
ARKANSAS	6644	1291	966
CALIFORNIA	22250	14640	9701
COLORADO	11262	11929	6184
CONNECTICUT	1810	246	141
DC	974	689	4518
DELAWARE	407	204	80
FLORIDA	20727	7676	4807
GEORGIA	5508	3170	2703
HAWAII	886	255	314
IDAHO	2115	1030	656
ILLINOIS	10975	10712	4855
INDIANA	6007	2943	1978
IOWA	5100	1128	1121
KANSAS	7359	1051	999
KENTUCKY	4011	1078	662
LOUISIANA	18428	3956	2005
MAINE	479	79	132
MARYLAND	3249	3330	956
MASSACHUSETTS	2160	427	378
MICHIGAN	6528	7377	2278
MINNESOTA	6874	4010	1970
MISSISSIPI	5599	1597	725
MISSOURI	3824	1987	961
MONTANA	3402	1631	482
NEBRASKA	1706	677	576
NEVADA	2342	2770	793
NEW HAMPSHIRE	303	58	69
NEW JERSEY	4617	4015	2462
NEW MEXICO	3044	826	448
NEW YORK	8638	6031	1999
NORTH CAROLINA	3474	1518	1752
NORTH DAKOTA	5498	1134	161
OHIO	15108	6970	5681
OKLAHOMA	30697	7977	4527
OREGON	4578	864	340
PENNSYLVANIA	18815	7014	3762
RHODE ISLAND	311	26	16
SOUTH CAROLINA	6581	2517	1416
SOUTH DAKOTA	712	392	106
TENNESSEE	4220	4290	1764
TEXAS	82305	23531	19116
UTAH	5047	2628	1096
VERMONT	650	54	53
VIRGINIA	2202	1980	1379
WASHINGTON	4634	3440	1954
WEST VIRGINIA	3003	124	327
WISCONSIN	6016	1492	1131
WYOMING	6345	1182	730

TABLE 6

	UNEMPLOYMENT RATE			RATIO OF THE STATE UNEMPLOYMENT RATE TO THE NATIONAL UNEMPLOYMENT RATE		
	1980	1987	CHANGE	1980	1987	CHANGE
ALABAMA	8.80	7.80	-1.00	1.24	1.26	0.02
ALASKA	9.50	10.80	1.30	1.34	1.74	0.40
ARIZONA	6.60	6.20	-0.40	0.93	1.00	0.07
ARKANSAS	7.60	8.10	0.50	1.07	1.31	0.24
CALIFORNIA	6.80	5.80	-1.00	0.96	0.94	-0.02
COLORADO	5.60	7.70	2.10	0.79	1.24	0.45
CONNECTICUT	5.90	3.30	-2.60	0.83	0.53	-0.30
DC	7.20	6.30	-0.90	1.01	1.02	0.00
DELAWARE	7.70	3.20	-4.50	1.08	0.52	-0.57
FLORIDA	6.00	5.30	-0.70	0.85	0.85	0.01
GEORGIA	6.40	5.50	-0.90	0.90	0.89	-0.01
HAWAII	5.00	3.80	-1.20	0.70	0.61	-0.09
IDAHO	7.90	8.00	0.10	1.11	1.29	0.18
ILLINOIS	8.30	7.40	-0.90	1.17	1.19	0.02
INDIANA	9.60	6.40	-3.20	1.35	1.03	-0.32
IOWA	5.70	5.50	-0.20	0.80	0.89	0.08
KANSAS	4.40	4.90	0.50	0.62	0.79	0.17
KENTUCKY	8.10	8.80	0.70	1.14	1.42	0.28
LOUISIANA	6.70	12.00	5.30	0.94	1.94	0.99
MAINE	7.70	4.40	-3.30	1.08	0.71	-0.37
MARYLAND	6.40	4.20	-2.20	0.90	0.68	-0.22
MASSACHUSETTS	5.60	3.20	-2.40	0.79	0.52	-0.27
MICHIGAN	12.60	8.20	-4.40	1.77	1.32	-0.45
MINNESOTA	5.70	5.40	-0.30	0.80	0.87	0.07
MISSISSIPI	7.50	10.20	2.70	1.06	1.65	0.59
MISSOURI	7.00	6.30	-0.70	0.99	1.02	0.03
MONTANA	6.00	7.40	1.40	0.85	1.19	0.35
NEBRASKA	4.00	4.90	0.90	0.56	0.79	0.23
NEVADA	6.20	6.30	0.10	0.87	1.02	0.14
NEW HAMPSHIRE	4.70	2.50	-2.20	0.66	0.40	-0.26
NEW JERSEY	7.20	4.00	-3.20	1.01	0.65	-0.37
NEW MEXICO	7.40	8.90	1.50	1.04	1.44	0.39
NEW YORK	7.50	4.90	-2.60	1.06	0.79	-0.27
NORTH CAROLINA	6.50	4.50	-2.00	0.92	0.73	-0.19
NORTH DAKOTA	4.90	5.20	0.30	0.69	0.84	0.15
OHIO	8.40	7.00	-1.40	1.18	1.13	-0.05
OKLAHOMA	4.80	7.40	2.60	0.68	1.19	0.52
OREGON	8.20	6.20	-2.00	1.15	1.00	-0.15
PENNSYLVANIA	7.80	5.70	-2.10	1.10	0.92	-0.18
RHODE ISLAND	7.20	3.80	-3.40	1.01	0.61	-0.40
SOUTH CAROLINA	6.90	5.60	-1.30	0.97	0.90	-0.07
SOUTH DAKOTA	4.70	4.20	-0.50	0.66	0.68	0.02
TENNESSEE	7.20	6.60	-0.60	1.01	1.06	0.05
TEXAS	5.20	8.40	3.20	0.73	1.35	0.62
UTAH	6.20	6.40	0.20	0.87	1.03	0.16
VERMONT	6.40	3.60	-2.80	0.90	0.58	-0.32
VIRGINIA	5.10	4.20	-0.90	0.72	0.68	-0.04
WASHINGTON	7.50	7.60	0.10	1.06	1.23	0.17
WEST VIRGINIA	9.40	10.80	1.40	1.32	1.74	0.42
WISCONSIN	7.00	6.10	-0.90	0.99	0.98	0.00
WYOMING	3.90	8.60	4.70	0.55	1.39	0.84
U.S. TOTAL	7.10	6.20	-0.90	---	---	---

Table 7

Number of Problem Loans Associated with Economic Distress by Federal Home Loan Bank District

	Conventional	VA	Total
Boston	-1,018	-703	-1,721
New York	-82	1,082	1,000
Pittsburgh	14,645	2,593	17,238
Atlanta	23,445	4,098	27,543
Cincinnati	13,473	3,723	17,196
Indianapolis	5,049	1,852	6,901
Chicago	8,651	3,903	12,554
Des Moines	15,123	1,364	16,487
Dallas	102,542	14,552	117,094
Topeka	45,722	7,917	53,639
San Francisco	15,025	3,123	18,148
Seattle	27,570	3,792	31,362
U.S. Total	270,145	47,297	317,441

Note.-- A negative number indicates that the weighted averages of problem loan rates in the states in a FHLB district are below the appropriate benchmark rates (i.e., conventional or VA benchmarks).

TABLE 8

ESTIMATED AVERAGE LOAN AMOUNTS

	CONVENTIONAL	VA	FHA
ALABAMA	$55,868	$53,979	$45,091
ALASKA	105,361	101,799	115,584
ARIZONA	75,028	72,492	66,469
ARKANSAS	51,005	49,281	43,428
CALIFORNIA	93,369	90,213	73,898
COLORADO	80,959	78,222	69,798
CONNECTICUT	70,605	68,218	58,919
DC	85,784	82,884	64,823
DELAWARE	55,547	53,669	45,059
FLORIDA	62,832	60,708	54,080
GEORGIA	62,119	60,019	58,743
HAWAII	110,992	107,240	101,970
IDAHO	58,139	56,174	50,513
ILLINOIS	60,274	58,236	53,998
INDIANA	44,899	43,381	39,787
IOWA	49,571	47,895	42,230
KANSAS	53,077	51,283	45,022
KENTUCKY	50,206	48,509	43,815
LOUISIANA	65,819	63,594	53,295
MAINE	52,216	50,451	51,937
MARYLAND	82,994	80,188	67,552
MASSACHUSETTS	77,405	74,788	65,981
MICHIGAN	44,237	42,742	35,145
MINNESOTA	71,611	69,190	64,284
MISSISSIPI	54,961	53,103	47,911
MISSOURI	52,165	50,402	46,006
MONTANA	59,721	57,702	53,768
NEBRASKA	58,186	56,219	47,321
NEVADA	80,911	78,176	66,694
NEW HAMPSHIRE	74,984	72,449	61,242
NEW JERSEY	61,302	59,230	51,530
NEW MEXICO	68,691	66,369	58,187
NEW YORK	53,439	51,632	47,315
NORTH CAROLINA	59,458	57,448	52,055
NORTH DAKOTA	52,348	50,578	48,298
OHIO	50,111	48,417	44,281
OKLAHOMA	58,503	56,525	51,456
OREGON	67,927	65,631	53,666
PENNSYLVANIA	49,941	48,253	39,368
RHODE ISLAND	71,976	69,543	47,461
SOUTH CAROLINA	61,697	59,611	49,355
SOUTH DAKOTA	52,971	51,180	44,005
TENNESSEE	56,752	54,833	51,580
TEXAS	69,347	67,003	62,989
UTAH	66,308	64,066	57,903
VERMONT	64,862	62,669	57,945
VIRGINIA	83,912	81,075	66,418
WASHINGTON	71,026	68,625	58,559
WEST VIRGINIA	50,722	49,007	44,316
WISCONSIN	55,372	53,500	45,857
WYOMING	63,800	61,643	56,779
U.S. TOTAL	$69,900	$67,537	$59,131

Table 9

Estimated Cost of Reinstatement of Problem Loans Associated With Economic Distress by Federal Home Loan Bank District [Thousands of Dollars]

	Conventional	VA	Total
Boston	$3,128.5	$134.3	$3,262.8
New York	3,350.4	6,139.2	9,489.6
Pittsburgh	70,893.3	12,108.3	83,001.6
Atlanta	148,980.1	34,686.8	183,666.9
Cincinnati	66,396.2	17,721.3	84,117.5
Indianapolis	21,795.7	7,706.3	29,502.0
Chicago	48,712.4	21,708.3	70,420.7
Des Moines	84,327.7	7,380.8	91,708.5
Dallas	666,031.0	92,998.6	759,029.6
Topeka	276,200.9	51,138.1	327,339.0
San Francisco	124,872.6	24,871.9	149,744.5
Seattle	200,211.3	27,794.1	228,005.4
U.S. Total	$1,714,900.1	$304,388.0	$2,019,288.1

Note.-- Only states with problem loan rates above the appropriate benchmark rates are included in the estimates in this table. Consequently, the two FHLB Districts in Table 7 that have negative numbers of problem loans show small costs in this table because the problem loan rate exceeds the benchmark rate in one or more of the constituent states.

Mortgage Insurance Companies of America

Steven P. Doehler
Executive Vice President

July 6, 1988

The Honorable Henry B. Gonzalez
2413 Rayburn House Office Building
United States House of Representatives
Washington, DC 20515-4320

Dear Representative Gonzalez:

On May 24, 1988, Edward J. Carlton, Jr., testified before the Housing Subcommittee on H.R. 4292 on behalf of the Mortgage Insurance Companies of America (MICA). During the hearing Congressman Wortley asked MICA to provide the Subcommittee with some ideas it believes would improve the ability of families to maintain their homes in a fashion that would be less intrusive than the temporary loan assistance outlined in H.R. 4292. This letter is in response to his request.

MICA believes that a key to easing the foreclosure burden on individual homeowners is in-depth financial counseling to those undergoing the stress of default. Our written testimony emphasized this point. MICA members are private mortgage insurers which have a vested interest in seeing that potential defaults and foreclosure losses are minimized. We testified, as did representative from lender organizations, that foreclosure losses can be reduced when counseling is provided after the default occurs. An established program can help unemployed workers and others get through their individual problems and regain self sufficiency. In this regard, mortgage insurers have a long standing record of spending funds at the time default occurs to reduce ultimate claim losses and at least one insurer is actively participating in the HOPE program described by Jim Butler at the hearing.

We believe a counseling program must place the greatest reliance upon the initiative of those families struggling to meet their mortgage obligations. The goal should be to foster opportunities so that distressed families can get back on their feet and have a realistic chance to retain their homes.

In addition we believe that a counseling program must involve the private and public sector working together. The government should help provide some of the funds to establish counseling facilities but eligibility for this counseling program should be determined by a private entity based on its experience. This generally means that participating families must agree to carry as much of the load as they can. A successful program cannot be operated as if the assistance was a government handout.

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Members of MICA have been very impressed with the model counseling program HOPE. HOPE assists unemployed and even underemployed families who are experiencing mortgage delinquencies in an efficient and economic fashion. By design it has been targeted to serve, along with its companion program EHOP, those families whose needs are the greatest. HOPE utilizes local communities' resources and is based upon leveraging to the maximum local and other government support as well as the support from private institutions. It has adopted job training efforts but more importantly provides counseling and other instruction that helps consumers prioritize their budgeting needs. It is a program that could be replicated nationwide and help resolve many foreclosure difficulties.

The initial success of HOPE will encourage other mortgage insurers to become involved. Presumably other private entities will also be interested in participating.

MICA would recommend that the Subcommittee explore the HOPE concept more fully. While we do not advocate throwing money at a program, we do believe an immediate step would be to facilitate gradual expansion of the HOPE concept. A test program could be established where borrowers with government insured loans that go into default could receive HOPE counseling. The counselling would be supported financially by the government. Ultimately if HOPE can save the FHA's MMIF a substantial amount, then some of the financial resources of FHA could go to providing support to HOPE's counseling efforts. In addition, HUD could be directed to use some of its designated counseling funds as seed money to establish the HOPE program in several key regions. Likewise, if HOPE counseling is found to help control foreclosure loss, then perhaps some of Fannie Mae's and Freddie Mac's financial resources could voluntarily go toward supporting the program.

We would be happy to participate in further dialogue on this issue, but urge action by the Subcommittee to support HOPE as a practical program with an already demonstrated level of achievement.

Sincerely,

Steven P. Doehler

SPD/smb

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